AUDITOR
GENERAL
Alberta

Report of the Auditor General of Alberta

April 2010

ISSN 1704–2313

AUDITOR
GENERAL
Alberta

Mr. Len Mitzel, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send the *Report of the Auditor General of Alberta—April 2010* to the members of the Legislative Assembly, as required by section 20(1) of the *Auditor General Act.*

Merwan N. Saher

Merwan N. Saher, CA
Acting Auditor General

Edmonton, Alberta
April 6, 2010

Contents

Past recommendations

Reference

AUDITOR GENERAL
Alberta

Introduction

Report of the Auditor General of Alberta—April 2010

Message from the Acting Auditor General

On February 15, 2010, Mr. Fred J. Dunn, FCA retired following a distinguished career that included almost eight years as Alberta's Auditor General. Although Mr. Dunn issued his last public report in October 2009, his contributions continue through this report, which includes the results of audit work carried out prior to his retirement.

On behalf of the Office, I would like to take this opportunity to acknowledge and extend our gratitude to Mr. Dunn for his leadership. His focus on governance and ethics, security and use of the province's resources, and the safety and welfare of Albertans, especially those most vulnerable, has resulted in changes that have a real impact on the lives of Albertans. We will miss his wisdom and experience. All of us wish him the best in his future endeavours.

Report Highlights

Project management oversight and accountability

In this report, we have made certain recommendations that highlight the need for improved project management oversight. In particular, our recommendations relating to ATB's new banking system implementation[1] demonstrate how important it is to have ongoing proactive oversight. Without it, projects may be delayed, come in over budget, or not achieve intended results.

At the outset, the nature and scope of large complex projects needs to be clearly understood. Otherwise, it's difficult to allocate project risk among the parties during the procurement process.[2] Incentives and penalties in the contract ensure that the risk falls on the party best able to manage it. Otherwise, increased costs due to delays or inadequate planning may fall on the government, and ultimately the taxpayer.

Regular monitoring throughout the project ensures that key issues can be identified and dealt with promptly. Effective oversight also requires regular reporting, with suitable and sufficient information from the project team, to demonstrate the project is on time and on budget.

With significant amounts of public money being expended on capital projects, the government should be able to demonstrate to Albertans that they are receiving value for money. Accountability cannot be achieved without transparency. Publicly demonstrating how value for money was received ensures that the government is held to account for whether public resources are being managed responsibly.

[1] Recommendation Nos. 8 to 11—starting on page 84.
[2] See also: Alberta Schools Alternative Procurement, page 13.

Identifying and resolving legislative non-compliance

In four of our seven new systems audits, we found that management was either not doing enough to identify non-compliance with legislation, or was not following through to ensure that identified non-compliance was resolved.[3] In each of these cases, we have made recommendations that may cause the organization to examine resource allocation. In our opinion, identifying the appropriate resources to achieve cost-effective compliance with legislation is among the most important of tasks required of government managers.

Importance of follow-up audits

In this report, we have also included a number of follow-up audits which report on the implementation of past recommendations.[4] Our follow-up audit work is extremely important because opportunities for improvement can only be achieved, and risks can only be mitigated, when our recommendations are implemented. If implementation is unreasonably slow, government officials should expect to find themselves subject to scrutiny when they appear before the Public Accounts Committee.

Acknowledgement and thanks

In closing, I want to thank Members of the Legislative Assembly, in particular members of the Standing Committee on Public Accounts, who help us to identify issues that are important to them as legislators. I also want to thank members of the Provincial Audit Committee, comprised of senior executives with financial, business and governance skills, who serve as wise counsel to our Office.

I would also like to express our appreciation to management and staff of the organizations that we audit. Without their assistance and cooperation, we would not be able to effectively fulfill our role.

Finally, I want to acknowledge and thank the Office's staff for the exceptional work they do every day to make the production of our public reports possible.

Merwan N. Saher

Merwan N. Saher, CA
Acting Auditor General

April 6, 2010

[3] See: Recommendation No. 3, page 39; Recommendation No. 5, page 68; Recommendation No. 14, page 101; Recommendation No. 15, page 120.
[4] See Systems Audits—Follow-up on Prior Audits starting at page 129.

Recommendation Highlights

This report contains 44 recommendations, all listed, starting at page 5. We have numbered 19 recommendations that need a formal response from the government. Of the 44 recommendations, 42 are new. The other two repeat unnumbered recommendations on which implementation progress was too slow.

Prioritizing our recommendations

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring our recommendations to the attention of Members of the Legislative Assembly (MLAs). For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

To help MLAs, we prioritize recommendations in our public reports to indicate where we believe they should focus their attention. We categorize them as follows:

- **Key recommendations**—These are the numbered recommendations we believe are the most significant.
- **Numbered recommendations**—These recommendations require a formal response from the government. By implementing these recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed.
- **Unnumbered recommendations**—These recommendations, although important, do not require a formal response from government.

Reporting the status of recommendations

We follow-up all recommendations and report their status in our public reports. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation, and assist with the timing of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

We report the status of our recommendations as:

- Implemented—We briefly explain how the government implemented the recommendation.
- Repeated—We explain why we are repeating the recommendation and what the government must still do to implement it.

- Progress report—Although not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.
- Satisfactory progress report—We may want to state that progress is satisfactory based on the results of a follow-up audit.
- Changed circumstances—If the recommendation is no longer valid, we briefly explain why and remove the recommendation from our outstanding recommendation list.

Outstanding recommendations

We have a chapter called Past Recommendations—see page 205. It provides a complete list of the recommendations that are not yet implemented. Although management may consider some of these recommendations implemented, we do not remove recommendations from the list until we have been able to complete follow-up audit work to confirm implementation.

We recognize some recommendations will take longer to fully implement than others but we encourage full implementation within three years; we will repeat a recommendation if we assess the implementation progress has been too slow.

April 2010 Recommendations

—Indicates a key recommendation

Green print—Numbered recommendations

Black print—Unnumbered recommendations

Systems audits

Cross-Ministry—Alberta Schools Alternative Procurement

Page 22 **Challenging and Supporting Assumptions—Recommendation No. 1**
We recommend that the Departments of Treasury Board and Infrastructure improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.

Page 24 **Transparency—Recommendation No. 2**
We recommend that the Departments of Treasury Board and Infrastructure follow their own guidance to publish a Value for Money Report upon entering into a Public Private Partnership (P3) agreement.

Employment and Immigration—Occupational Health and Safety

Page 39 **Promoting and enforcing compliance—Recommendation No. 3**
We recommend that the Department of Employment and Immigration enforce compliance with the *Occupational Health and Safety Act* by employers and workers who persistently fail to comply.

Page 43 **Work Safe Alberta planning and reporting—Recommendation**
We recommend that the Department of Employment and Immigration improve its planning and reporting systems for occupational health and safety by:
- obtaining data on chronic injuries and diseases to identify potential occupational health and safety risks
- completing the current update of the *Work Safe Alberta Strategic Plan*
- measuring and reporting performance of occupational health and safety programs and initiatives that support key themes of the *Plan*

Page 46 **Occupational Health and Safety inspection systems—Recommendation**
We recommend that the Department of Employment and Immigration strengthen its proactive inspection program by improving risk focus and coordinating employer selection methods for its inspection initiatives.

Page 48 **Certificate of Recognition—Recommendation**
We recommend that the Department of Employment and Immigration improve its systems to issue Certificates of Recognition by:
- obtaining assurance on work done by Certificate of Recognition auditors
- consistently following-up on recommendations made to certifying partners

Page 50 **Legislated permit and certificate programs—Recommendation**
We recommend that the Department of Employment and Immigration strengthen the legislated permit and certificate programs by improving:
- control over issued asbestos certificates
- processes for approval and monitoring of external training agencies

Environment—Managing Alberta's Water Supply

Page 65 **Backlog of Water Act applications—Recommendation No. 4**
We recommend that the Department of Environment minimize the backlog of outstanding applications for *Water Act* licences and approvals.

Page 68 **Assessing compliance with the Water Act—Recommendation No. 5**
We recommend that the Department of Environment ensure its controls provide adequate assurance that performance in the field by licence and approval holders as well as others complies with the *Water Act*.

Page 71 **Wetland compensation—Recommendation No. 6**
We recommend that the Department of Environment formalize its wetland compensation relationships and control procedures.

Page 73 **WPAC grants and contracts—Recommendation No. 7**
We recommend that the Department of Environment strengthen its control of grants and contracts with Watershed Planning and Advisory Councils.

Finance and Enterprise—ATB: New Banking System Implementation

Page 84 **Project management—Recommendation No. 8**
We recommend that Alberta Treasury Branches improve the management of its Core project by:

- resolving pending business decisions, dealing with remaining change requests, and locking down the project's scope so that the project's design phase can be completed
- developing a new project plan with a realistic schedule and budget to complete the project

Page 84 **Project management—Recommendation No. 9**
We recommend that Alberta Treasury Branches examine its existing project management controls and clearly identify, and put in place, the new controls necessary to minimize the risk that the project will not be completed within the revised timelines and budget or will not deliver the expected functionality.

Page 84 **Project governance—Recommendation No. 10**
We recommend that Alberta Treasury Branches conduct reviews of the Core project at clearly identified checkpoints within the revised project plan to ensure the deliverables are accepted by the Core project's Strategic Steering Committee and there is clear agreement for the project to continue.

Page 85 **Performance reporting—Recommendation No. 11**
To improve monitoring and oversight of the Core project, we recommend that Alberta Treasury Branches' management provide the Board of Directors with more information on:

- project performance in relation to the revised schedule and budget
- stage of completion of significant project deliverables (percent complete and percent of budget consumed)
- explanations for variances between actual results and the revised project plan, and the actions taken to deal with the causes

Finance and Enterprise—Oversight of Financial Institutions

Page 96 **Improving accountability—Recommendation No. 12**
We recommend that the Department of Finance and Enterprise clarify its business objectives for Alberta Treasury Branches, within their *Memorandum of Understanding*, in relation to the level of risk the Department expects Alberta Treasury Branches to take.

Page 97 **Implementation plan for regulatory and supervisory frameworks—Recommendation No. 13**
We recommend that the Department of Finance and Enterprise develop an implementation plan for its approach to regulating and supervising regulated financial institutions.

Page 100 **Completion of risk assessments—Recommendation**
We recommend that the Department of Finance and Enterprise complete risk assessments and evaluate the quality of the regulated entities' risk management practices.

Page 101 **Monitoring legislative compliance—Recommendation No. 14**
We recommend that the Department of Finance and Enterprise strengthen its processes to ensure identified legislative non-compliance matters are remediated.

Page 102 **Improving transparency—Recommendation**
We recommend that the Department of Finance and Enterprise:
- clearly identify which guidelines and supervisory rules are applicable for the regulated entities
- develop processes to monitor compliance with the guidelines
- assess how risks are mitigated for those guidelines and supervisory rules that are not applicable

Service Alberta—Land Titles Registration System

Page 110 **Analyzing land titles data—Recommendation**
We recommend that the Department of Service Alberta improve its ability to detect fraudulent transactions and mitigate the risk of property fraud by:
- conducting regular analysis of land title data for suspicious transactions
- using the results of data analysis to focus investigations and prosecutions
- providing information about suspicious activities to Department staff to assist them in the exercise of their new legislative authority

Solicitor General and Public Security—Oversight of Peace Officers

Page 120 **Follow-up of compliance audit report recommendations—Recommendation No. 15**
We recommend that the Department of Solicitor General and Public Security improve its processes to monitor and ensure employers implement its compliance audit recommendations by:
- developing, maintaining and monitoring a database of the implementation status of all audit recommendations
- requiring timely written confirmation of compliance from employers
- ensuring files on employers are properly maintained
- taking necessary and timely action against non-compliant employers

Page 122 **Processes to conduct compliance audits—Recommendation**
We recommend that the Department of Solicitor General and Public Security:
- use a risk-based approach in future audit cycles for selecting on-site employer compliance audits
- better document compliance audit files, including documenting audit findings, identifying auditors performing the work and demonstrating sufficient oversight

Page 125 **Monitoring employers' investigations of peace officers—Recommendation No. 16**
We recommend that the Department of Solicitor General and Public Security improve monitoring of employers' investigations of complaints made against peace officers by:
- following current policy and best practices, including managerial approval of concluded files, and implementing proper filing procedures
- providing written notification to an employer when closing a file
- better maintaining its databases

Financial Statement and Other Assurance Audits

Advanced Education and Technology

Page 158 **Cross-Institution recommendations—Enterprise risk management—Recommendation No. 17**
We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) work with post-secondary institutions to identify best practices and develop guidance for them to implement effective enterprise risk management systems.

Page 160 **Grant MacEwan University—Periodic financial reporting—Recommendation**
We recommend that Grant MacEwan University improve its financial reporting to the Board's Audit and Finance Committee and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

Page 160 **Portage College—Periodic financial reporting—Recommendation**
We recommend that Portage College improve its financial reporting to the Board and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

Page 160 **Medicine Hat College—Periodic financial reporting—Recommendation Repeated**
We again recommend that Medicine Hat College improve its financial reporting to the Board by including—at least quarterly—complete statements of the College's operations, financial position and changes in net assets.

Page 160 **Alberta College of Art and Design—Periodic financial reporting—Recommendation Repeated**
We again recommend that Alberta College of Art and Design improve its processes and controls to increase efficiency, completeness and accuracy of financial reporting.

Page 165 **Grant MacEwan University—Systems over costs for internal working sessions and hosting guests—Recommendation**
We recommend that Grant MacEwan University:
- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

Page 166 **University of Calgary—Systems over costs for internal working sessions and hosting guests—Recommendation**
We recommend that the University of Calgary:
- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

Page 167 **Red Deer College—Systems over costs for internal working sessions and hosting guests—Recommendation**
We recommend that Red Deer College:
- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- strengthen its processes to ensure staff follows its policies and processes for employee expense claims and corporate credit cards

Page 167 **University of Alberta—Systems over costs for internal working sessions and hosting guests—Recommendation**
We recommend that the University of Alberta follow its policies and processes for employee expense claims and corporate credit cards.

Page 170 **Grant MacEwan University—Preserve endowment assets—Recommendation**
We recommend that Grant MacEwan University improve its endowment and related investment policies and procedures by:
- establishing and regularly reviewing a spending policy for endowments
- improving its processes to review its endowment related investments
- improving its reporting of investments and endowments to the audit and finance committee

Page 170 **Southern Alberta Institute of Technology—Preserve endowment assets—Recommendation**
We recommend that SAIT clarify its expectations for preserving the economic value of its endowment assets and document an endowment policy for managing endowment earnings.

Page 174 **Grant MacEwan University—Improve and implement University policies—Recommendation No. 18**
We recommend that Grant MacEwan University improve its control environment by implementing or improving:
- a code of conduct and ethics policy and a process for staff to acknowledge they will adhere to its policies
- a process for staff to annually disclose potential conflicts of interest in writing so the University can manage them proactively
- a safe disclosure policy and procedure to allow staff to report incidents of suspected or actual frauds or irregularities
- a responsibility statement in its annual report to acknowledge management's role in maintaining an effective control environment

Page 176 **Grant MacEwan University—Adhere to signing authority limits—Recommendation**
We recommend that Grant MacEwan University improve its processes to ensure appropriate staff with proper signing authority approve contracts and purchases.

Page 178 **Grant MacEwan University—Implement a quality assurance program for enterprise resource planning project—Recommendation No. 19**
We recommend that Grant MacEwan University develop and implement a quality assurance program for its enterprise resource planning renewal project.

Page 181 **Alberta College of Art and Design—Bookstore operations—Recommendation**
We recommend that Alberta College of Art and Design maintain an effective system of internal controls to enhance the integrity of its bookstore operations.

Page 183 **Alberta College of Art and Design—Journal entries—Recommendation**
We recommend that Alberta College of Art and Design:
- ensure journal entries entered into the financial system are independently reviewed and approved
- develop a policy that defines the process for recording and approving journal entries and the documentation required to support the entry

Page 184 **Olds College—Improve bookstore sales and inventory control—Recommendation**
We recommend that Olds College improve internal controls in the bookstore relating to sales and inventories.

Page 185 **Red Deer College—Control over payroll processes—Recommendation**
We recommend that Red Deer College improve its controls over payroll.

Page 186 **NorQuest College—Bookstore services—Segregation of duties in the bookstore—Recommendation**
We recommend that NorQuest College implement proper segregation of duties within its bookstore services.

Page 187 **Northern Alberta Institute of Technology—Purchasing guidelines—Recommendation**
We recommend that NAIT implement processes to ensure:

- guidance exists on the steps required to evaluate potential vendors and the documents required to evidence that a review occurred
- compliance with its purchasing guidelines
- all purchasing decisions are properly justified

AUDITOR
GENERAL
Alberta

Systems Audits—Current Year Audits

Report of the Auditor General of Alberta—[illegible]

Alberta Schools Alternative Procurement

Summary

What we examined

On June 14, 2007, the Minister of Education announced that 18 new schools would be constructed using a Public Private Partnership (P3) model as a pilot project to determine if a P3 could deliver a large number of schools quickly—by September 2010—and ensure value for taxpayer dollars. This project is known as the Alberta Schools Alternative Procurement (ASAP 1) project.

We examined the processes that the ASAP 1 team developed to apply the guidance from the *Management Framework: Assessment Process* and the *Management Framework: Procurement Process* to:

- assess the potential value for money that could be obtained through a P3 contract arrangement
- ensure that the activities undertaken in the procurement phase resulted in a fair and transparent process

Why this is important to Albertans

Should demonstrate value for money

Albertans need to know if the processes that the government uses to assess P3 opportunities demonstrate value for money to build and maintain the province's capital property over the long term. A Value for Money Report would describe the province's objectives in undertaking the ASAP 1 project, conclude on whether these objectives were met, and demonstrate how value for money was obtained.

What we found

Systems supported decision but could be improved

Our first audit objective was to determine if the ASAP 1 project systems demonstrated that the P3 approach provided value for money. Our conclusion is the systems used by the ASAP 1 team supported the decision to award the Design Build Finance Maintain (DBFM) contract. The contract was awarded to the consortium with the lowest bid and risk was allocated appropriately. Systems to validate key assumptions could be improved.

Fair and open procurement, but could be more transparent

Our second audit objective was to determine if a fair, open and transparent process was used during the procurement. We concluded that the processes used for ASAP 1 resulted in a fair and open procurement. However, transparency to Albertans could be improved. The ASAP 1 team did not publish a report to inform Albertans how value for money was achieved.

What needs to be done

Implementing the following will improve the quality of information used to assess and communicate value for money in alternatively financed infrastructure investments:

- Significant assumptions should be challenged; evidence supporting the reasonability of these assumptions should be retained; and including appropriate sensitivity analysis in the business case could provide useful information about uncertainty of long-range estimates.
- A Value for Money Report should be prepared and published.

Audit objectives and scope

Our audit objectives were to determine if:

a) the ASAP 1 project demonstrates that the P3 approach provides value for money by structuring the project such that:
   i) lifecycle costs were minimized
   ii) risks were transferred to, or retained by, the party who could most cost-effectively manage the risk
   iii) processes developed, challenged and validated significant assumptions contained in supporting analyses such as the public sector comparator and the shadow bid

b) a fair, open and transparent process was used during the procurement

Project not included in the capital plan

By introducing ASAP 1 as a pilot project, the province did not apply the guidance on preparing a feasibility analysis or proceeding through the capital planning process. ASAP 1 applied the framework guidance from the point that a business case was developed. Consequently, our examination of the processes the Departments used to assess value for money begins at the preparation of the business case.

Our audit covered activities from April 2007 to September 2008, the date that the P3 contract was signed. We:

- interviewed staff and examined evidence to assess how the government applied the guidance contained in the *Management Frameworks* to develop its analysis of the available procurement options and the value for money that the alternatives provided
- examined the financial models used to calculate value for money
- examined reports prepared by the Fairness Auditor on the application of the Fairness Principles contained in the *Management Framework: Procurement Process*
- interviewed staff and examined documentation of procurement processes to test assertions contained in the Fairness Auditor's reports
- interviewed school jurisdiction staff to gain an understanding of their involvement in the process

- engaged a quantity surveyor to examine the methodology used to develop construction cost estimates
- examined information supporting Education's 2007–2010 capital plan for evidence of analysis supporting savings opportunities under P3 model

Background

What is a P3?

The *Management Framework: Assessment Process* defines a P3 as a form of procurement for the provision of capital assets and associated long-term operations that includes a component of private finance. Payment to the contractor is to be performance based. In other words, a P3 is a contract with a different scope than traditional procurement.

Traditional procurement

Province funds, but school jurisdictions manage traditional procurement

Traditionally, approval and funding for new school infrastructure takes place through both school jurisdiction and provincial capital planning processes. Each school jurisdiction manages the design, construction, and routine and major maintenance (cyclical renewal) phases. Funding is provided by the province through capital grants, Infrastructure Maintenance and Renewal grants, and through school jurisdiction allocations of unrestricted operating grants.

Funding for maintenance has not kept pace with needs

School jurisdictions enter into contracts with third parties for design, construction and cyclical renewal activities over the lifetime of schools. Routine maintenance may be provided by school jurisdiction staff or by contractors. Maintenance funding is provided annually by the Department of Education and allocated to individual schools by the school jurisdictions. Based on facility condition ratings performed by the Department of Infrastructure, maintenance has not kept pace with indicated needs.

Alternative procurement

Over the course of several years, the Department of Education has investigated different methods of developing school infrastructure, with the objective of determining if there was a better way to build and maintain school infrastructure.

Timeline for alternative procurement

The 2003 Minister's Symposium on Schools examined alternatives and made recommendations for examining alternative procurement opportunities. Education's 2007 capital plan, *Schools for Tomorrow*, introduced the concept of standardized core-modular schools. Three architecture firms developed five core-modular school design concepts for K–6, K–9 and 7–9 schools. In June 2007, the Minister of Education announced the Alberta Schools Alternative Procurement project.

Alberta schools alternative procurement (ASAP 1)

Differences between traditional and P3 approaches

ASAP 1 will build 18 schools using a Design Build Finance Maintain (DBFM) procurement model. Similar to traditional procurement, design, construction and cyclical renewal activities are obtained under contract. Unlike traditional procurement, the ASAP 1 project incorporates several significant changes:

- Standardized core-modular school designs will be adopted; all schools are included in one contract.
  - Standardized designs can reduce design costs. While each school design must incorporate site-specific issues, there is an element of repeatability.
  - Bundling the schools into one contract provides an opportunity to achieve economies of scale through applying experience gained in the first structure to multiple follow-on buildings.
- The contract utilizes a design-build model.
  - Risk is transferred to the contractor—The contractor must design a structure that can be built to the required standard. The contractor is responsible for correcting any design deficiencies.
  - In traditional procurement, the school jurisdiction may be required to pay for design changes/deficiencies since the design is tendered separately.
  - The P3 contractor is responsible for ongoing maintenance and renewal activities. To maintain profitability, the contractor must weigh the costs of initial build quality against the risks of having to perform more maintenance and renewal in the future. Since maintenance and renewal fees are fixed at the beginning of the contract, the contractor has significant financial incentive to ensure high quality in the initial construction.
- The contractor finances the construction of the schools.
  - Private sector financing is more expensive than the province could obtain directly, however that does not invalidate its use. Financing costs should be evaluated in conjunction with other elements of the contract. Ultimately, it is the total cost of the contract that is assessed in the value for money determination. Incremental financing costs in excess of provincial financing costs may be acceptable if financing costs are lower than the savings achieved through economies of scale, risk transfers or other cost efficiencies that the contractor can provide.
  - Making the contractor responsible for financing is a valid technique for ensuring the contractor is responsible for certain risks. For example, if the contractor fails to complete schools within the agreed upon schedule, the contractor will not receive capital payments it requires to finance its borrowings. Significant penalties for non-availability may also be levied throughout the contract term.

    - The ability of the province to withhold payments that reimburse the contractor's borrowing over the 30-year capital repayment period is a significant lever the province holds to enforce contractor performance. If the contract did not include a financing component, insufficient money exists in the Maintenance and Renewal (M&R) payment stream to deter the contractor from abandoning the contract during the M&R period. Structuring the contract in such a way that the contractor provides financing mitigates the risk of the contractor failing to perform. Failure to perform would result in the province withholding the payments needed by the contractor to repay its financiers.
- The contractual commitment to pay the contractor to carry out maintenance and renewal activities will result in systematic funding for these schools. In other words, these schools will not add to the total deferred maintenance balance over the contract term.

Guidance documents

Department developed guidance for P3 projects

In response to recommendations included in our *October 2004 Report* on Public Private Partnerships (P3s), the Department of Infrastructure developed detailed guidance to assist departments in developing, analyzing, approving and tendering P3s:

- *Management Framework: Assessment Process*
- *Management Framework: Procurement Process*

Responsibility for these frameworks was transferred to the Department of Treasury Board when the Alternative Capital Financing Office was created.

In Appendix A (see page 29), we set out the key elements of the frameworks that apply to the assessment and procurement phases of a P3 project.

Key concepts and terms

Our findings refer to several terms that have specific meanings in financial analysis in general or in the evaluation of P3 proposals. Here is a brief explanation of net present values, value for money, public sector comparators and a Shadow Bid.

Present value makes cash flows comparable

Net present value (NPV) is a common analysis technique used to develop comparable values for projects with different cash flows. The underlying concept is that a dollar today is worth more than a dollar tomorrow. For example, if you can invest $100 at 5% interest, in one year you would have $105. All other things being equal, an organization would be indifferent between paying $100 for a product today or $105 for that same product in one year. A net present value calculation restates future cash flows to an equivalent current value using an interest rate called the discount rate.

Value for money according to the *Management Framework: Assessment Process* is a combination of whole life cost and quality to meet the user requirements. In less technical terms, it is an assessment of the quantifiable cost of a project in relation to the qualitative benefits expected to be received. A procurement option that provides the same qualitative benefits, but at a lower cost than another alternative provides greater value for money.

Public Sector Comparator is a benchmark

The Public Sector Comparator (PSC), as defined in the *Management Framework: Assessment Process*, is an estimate of the risk-adjusted cost of a project financed, owned and implemented by the province. It should represent the full cost to deliver the required infrastructure and services using a traditional procurement delivery method. The PSC serves as a benchmark against which to evaluate the alternatives, and to examine the impacts of changing key project parameters and assumptions such as risk allocation.

Shadow Bid is a model for the P3

The Shadow Bid is developed by modeling the project as if it were delivered as a P3 procurement. In a business case, the Shadow Bid is compared to the PSC to identify areas where value for money could occur, and as a basis to determine whether the project should proceed as a P3.

Depending on the procurement method used, the Shadow Bid may be used as a benchmark to assess submissions in the procurement phase.

Findings and recommendations

Audit findings have been split into four main sections:

1. Life cycle cost
2. Risks
3. Challenging and supporting assumptions
4. Fair and transparent process

1. Life cycle cost

Background

Life cycle cost (LCC) refers to the overall cost to build, operate and maintain a building over its expected useful life.

Life cycle cost defined

"The basic premise of the LCC method is that to an investor or decision maker all costs arising from an investment decision are potentially important to that decision, including future as well as present costs. Applied to buildings or building systems, the LCC encompasses all relevant costs over a designated study period, including the costs of designing, purchasing/leasing,

constructing/installing, operating, maintaining, repairing, replacing, and disposing of a particular building design or system."[1]

The *Management Framework: Assessment Process* provides similar guidance. Both the PSC and the Shadow Bid should be based on a full life cycle cost analysis. All relevant costs over the project time frame should be included. The broad categories of costs identified include:

- capital items (land, construction, furniture and equipment, etc.)
- annual operating items (facility operating and maintenance, program salaries, etc.)
- cyclical items (repairs and maintenance, fixtures, etc.)
- receipts (revenues)
- residual value

Criteria: the standards we used for our audit

The ASAP 1 project should demonstrate that a P3 provides value for money. A public sector comparator should be prepared that contains the following components:

- base costs that represent the base cost to government of producing and delivering the project, including costs associated with design, construction and operation (if applicable)
- periodic costs such as major maintenance and cyclical renewal required to maintain the service potential of the asset

The public sector comparator should be based on a full life cycle cost analysis. This analysis should include all costs and expected benefits, and include both capital and operating expenditures.

Our audit findings

The systems demonstrated that lifecycle costs were minimized.

Contract awarded to lowest bid

The DBFM contract was awarded to the consortium whose proposal provided the lowest net present value of life cycle costs (design, construction, maintenance and cyclical renewal costs) based on the specified standards over the project's timeframe—both as compared to the other proposals received, and as compared to the PSC.

[1] ASTM International, *Standard Practice for Measuring Life-cycle Costs for Buildings and Building Systems*, page 1. ASTM International is a voluntary standard setting body.

2. Risks

Background

Risk evaluation is an important process in the development of business case alternatives. Risk evaluation includes:

- identifying relevant risks
- assessing of the likelihood of a risk event occurring
- assessing the impact to project costs if a risk event were to occur
- determining if, or how, risks and risk impacts change among alternatives under consideration
- identifying risks that cannot be transferred to a third party
- assessing whether a risk should be retained or transferred

The calculation of the costs of risk and the different allocation of risks between the province and the contractor in the PSC and P3 alternatives is a significant factor in determining which procurement alternative provides the lowest cost.

Examples of risks to be allocated include:

- additional costs due to design changes
- failure to complete construction on schedule
- building site conditions (environmental and/or archaeological)
- timing and extent of capital renewal
- effect of inflation in the operating period

Criteria: the standards we used for our audit

The ASAP 1 project should demonstrate that a P3 provides value for money. A rigorous and realistic analysis of risk allocations should be undertaken to identify those risks where the least cost to manage the risk resides with the private sector or government, as appropriate.

Our audit findings

The systems demonstrated that risks were transferred to, or retained by, the party who could most cost-effectively manage the risk.

Risk appropriately allocated

Risk was appropriately allocated between the province (departments or school jurisdictions) and contractors. The allocation of risks varied between the alternatives under consideration. We found the allocations to be consistent with the:

- broad responsibilities of each party under the various forms of contracting considered, and
- comments on the risk matrix describing the likelihood, significance and impact on the contractor

Allocations of additional risks to contractors in the P3 alternative was consistent with reduced likelihood or reduced impacts. These assessments of reduced impact are an indicator that the contractor could more effectively manage the risk.

Risk assessment process

Risks assessed for all alternatives

The project team held facilitated risk assessment sessions with representatives from ministries involved in the project. The output from the risk assessment sessions was an annotated risk matrix that identified the risk category, specific risk, likelihood, impact, cost base, and an explanation of what the risk was and factors considered in assessing the likelihood and impact. This process was completed for both the PSC and P3 alternatives.

As risks were identified and assessed, participants in these sessions reached consensus opinions as to the probability and impacts of risks that could affect design, construction, maintenance, cyclical renewal, and financing stages of the project.

Managing retained risks

Introduced additional rigour to project process

The actions the Departments took, and their expanded role in managing the design development process appears to have significantly mitigated risks of scope creep. Structuring the project as a government managed P3, enabled the Departments to bring additional rigour to the process.

Design changes minimized

School jurisdictions were consulted in the development of school design requirements. However, the Departments, rather than school jurisdictions, had the final say on school designs and design changes. School jurisdictions had no authority to issue change orders to the contractor. The Departments authorized only those changes that were cost neutral or that were necessary to deliver requirements within the design standard. The additional costs of these changes were insignificant.

Delays avoided

A development appeal was filed against one of the selected school sites. The Department of Infrastructure led efforts to resolve residents' concerns. Once the residents' concerns were resolved, an Order in Council was passed exempting the site from further review by the city's development appeal board. A school jurisdiction official advised that the jurisdiction may have required an additional six months to resolve the issue on their own.

3. Challenging and supporting assumptions

Recommendation No. 1

We recommend that the Departments of Treasury Board and Infrastructure improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.

Background

Business case assesses alternatives

A business case is prepared to assess procurement alternatives, to identify the preferred project delivery alternative and, in the case of a P3, to obtain support and approval to proceed with the procurement.

The *Management Framework: Assessment Process (Assessment Framework)* requires that common assumptions and assumptions specific to either the Public Sector Comparator (PSC) or P3 alternatives be documented. Assumptions should be updated as the project moves through various phases of implementation.

Wherever possible, costs associated with the PSC should be based on actual experience obtained on prior projects.

The *Assessment Framework* contains guidance on the disclosure of significant risks, including discussion of the nature of the risk, the likelihood and impact of individual risks, and the likely cost associated with these risks.

Guidance on sensitivity analysis

The *Assessment Framework* also provides guidance about performing sensitivity analysis. Such an analysis should be undertaken to show "the effects of different assumptions on the relative value for money of the procurement options. This analysis should be used to identify the changes in assumptions that are significant enough to change the recommendations."

Criteria: the standards we used for our audit

The ASAP 1 project should demonstrate that a P3 provides value for money. The business case assumptions and analysis should be complete and reasonable.

Our audit findings

Significant common assumptions and assumptions specific to either the PSC or P3 alternatives were identified in the business case. The ASAP 1 project team (project team) did not retain evidence to support all significant assumptions and risk costs were based on anecdotal evidence. Notwithstanding the quality of evidence, we have been able to conclude that the decision to award the Design Build Finance Maintain contract was appropriate.

Supporting documents not retained

Maintenance costs—Documents supporting the estimate of the maintenance component of life cycle costs were not retained. The project team was unable to demonstrate how they determined the maintenance costs included in the PSC were a reasonable proxy for the type and level of maintenance expenses that school jurisdictions would expect to incur to maintain schools. However, since the same maintenance costs were used for both the PSC and the Shadow Bid alternatives, the lack of support for these costs did not influence the decision to proceed with a P3 form of procurement.

School jurisdiction data not comparable

The project team attempted to obtain information from school jurisdictions on the nature and cost of various maintenance activities. The information the project team obtained was not comparable between school jurisdictions and, in some cases, was too highly aggregated to provide meaningful guidance.

Alternative means to estimate maintenance costs

As an alternative, the project team estimated school maintenance costs by examining the costs to maintain Department of Infrastructure owned office space for the year ended March 31, 2005. This information was adjusted to remove costs that would not be included in the P3 contract, or to remove costs for buildings that operate around the clock. Inflation rates were applied to obtain an estimate of maintenance costs for 2007, the time that the business case was prepared.

Maintenance costs per square foot determined through this process were similar to published maintenance costs for private sector owned office buildings. However, because the documentation supporting this process was not retained, we were unable to determine how the processes, as described, included all and only relevant costs.

Risks not assessed against historical experience

Risk valuations—We did not find evidence that estimated risk costs were, in total, validated against actual experience from prior school construction projects. Historical project cost information would provide additional validation of estimated risk costs, or serve as a means to refine those estimates.

Reporting final costs

School jurisdictions receive initial capital project funding approval from the Department of Education. School jurisdictions must also request approval from the Department for additional funds to cover costs in excess of the initial funding allocation. At the end of school construction, school jurisdictions must submit a project completion report that identifies total costs to the end of construction.

We asked whether analysis of cost overruns in prior school construction projects supported the level of change orders or construction cost overruns that had been estimated. The project team had not performed such an analysis.

Risk costs based on anecdotal evidence

Risk valuations were based on consensus opinion of knowledgeable staff and consultants, based on experience and anecdotal evidence of the nature, likelihood and impact of risks occurring. These assessments were entered into a statistical model to reduce uncertainty about the risk inputs by performing iterative simulations of project outcomes using a pre-defined probability curve. The most likely risk costs determined by this probabilistic model were used in the business case cost/benefit analysis.

Sensitivity analysis not included in business case

Sensitivity analysis—A sensitivity analysis, or an explanation why a sensitivity analysis was not required, was not included in the business case. Sensitivity analysis should be provided where changes in significant assumptions may impact the decision.

Uncertainty exists for long-term significant assumptions

The project team used assumptions with significant uncertainty, such as risk valuation, inflation, maintenance costs, and time to complete construction. Each option included in the business case may react differently to changes in these assumptions. For example, the PSC is more sensitive to changes in construction inflation due to the longer construction period. The P3 option is more sensitive to changes in discount rates and cost of capital assumptions due to the 30-year period over which the province pays for the capital cost of the schools.

A sensitivity analysis is useful in informing business case users of the impact that uncertainty may, or may not have, on the cost of alternatives.

Implications and risks if recommendation not implemented

Failure to validate key cost assumptions may result in the development of inaccurate cost comparisons. Decision makers may not understand the implications of uncertainty in key assumptions.

4. Fair and transparent process

4.1 Transparency

Recommendation No. 2

We recommend that the Departments of Treasury Board and Infrastructure follow their own guidance to publish a Value for Money Report upon entering into a Public Private Partnership (P3) agreement.

Background

The Management Framework: Procurement Process provides guidance on information that should be disclosed in a Value for Money Report and information that should remain confidential to avoid compromising the competitive process.

Value for Money Report requirements

To ensure that the P3 process is transparent, the framework states that a Value for Money Report be prepared, and published upon signing the P3 contract, to inform Albertans about how value for money was achieved. The Report should include the following content:

- project background, objectives and alternatives (typically traditional delivery and P3 delivery)
- a description of the selection process, short-listed proponents, preferred proponent, milestone dates, advisors (financial, engineering, process, fairness as applicable), and selection costs
- a summary of the key terms of the Project Agreement
- a financial summary including NPV lifecycle cost comparison, performance payment requirements and accounting treatment
- any material scope changes to the project during the procurement
- summary of the risk profile/allocation
- innovations and creativity provided

The Value for Money Report also provides a vehicle for communicating the qualitative benefits expected to be received through a P3.

A P3 may be considered instead of traditional forms of infrastructure acquisition and maintenance where there is a reasonable expectation that the P3 can provide greater value for money through a combination of risk transfer, earlier project delivery, and lower initial capital and ongoing maintenance and cyclical renewal costs.

A business case is prepared to find best alternative

Departments prepare a business case to determine the procurement alternative that can provide the best value for money. The quantitative analysis compares the estimated costs of a traditional alternative—the Public Sector Comparator to other viable alternatives, one of which is a P3.

Criteria: the standards we used for our audit

The Ministries should make the recommended disclosures pursuant to the transparency and accountability guidelines contained in the *Management Framework: Procurement Process* including publishing a Value for Money Report.

Our audit findings

Value for Money Report not prepared

A Value for Money Report was not published in accordance with the procurement framework guidance. The Departments did not demonstrate, in a transparent manner, how value for money was obtained. Summarizing relevant information in a Value for Money Report would enhance the transparency of the procurement process for Albertans.

On September 19, 2008, the Departments of Education, Infrastructure and Treasury Board announced that the agreement signed with BBPP Alberta Schools Limited (BBPP) provided savings of $118 million. The savings were calculated by comparing the $634 million net present value (NPV) of the BBPP bid to the $752 million NPV of the public sector comparator (PSC). The news release provided additional information describing the ASAP 1 project, but did not provide all information that a Value for Money Report would contain.

Other information related to the procurement process was available through other news releases or published on department web sites. However, many of the published procurement documents, including the contract, are large and technical in nature.

Calculation of savings—ASAP 1 generated savings, but not to the extent of the $118 million disclosed in the news release. We identified an error in the calculation of the cost of the P3.

Savings overstated

Savings announced upon signing the P3 contract were overstated by approximately $20 million because the public sector comparator contained an estimate for the cost of furniture and equipment, but the P3 did not.

Implications and risks if recommendation not implemented

Albertans are not informed about the means by which the Departments obtained value for money.

4.2 Fair and open procurement

Background

Fairness principles

To ensure that the procurement process is fair and consistent, the following principles are used as guidelines throughout the process:

- all interested parties, respondents and proponents have the same opportunity made available to access information
- the information made available to interested parties, respondents and proponents is sufficient to ensure that they have the opportunity to fully understand the opportunity
- all interested parties, respondents and proponents have reasonable access to the opportunity
- the criteria established in the invitation documents truly reflect the needs and objectives in respect of the project
- the evaluation criteria and the evaluation process are established prior to the evaluation of submissions

- the evaluation criteria, RFQ/RFP, and evaluation processes are internally consistent
- the pre-established evaluation criteria and evaluation processes are followed
- the evaluation criteria and process are consistently applied to all submissions

Criteria: the standards we used for our audit

The procurement process should adhere to the Fairness Principles, and other requirements, contained in the *Management Framework: Procurement Process.*

Our audit findings

The ASAP 1 procurement was conducted in a fair and open manner.

Tendering of the contract proceeded in a two stage process:

- A public Request for Qualifications (RFQ) was issued subsequent to the Alberta Treasury Board's approval of the business case recommendation to proceed with a P3 procurement option.
- The top three qualified respondents to the RFQ were invited to submit bids on the Request for Proposals (RFP)

Procurement handled in fair and open manner

A Fairness Auditor was engaged to observe procurement processes and report on adherence to the fairness principles contained in the *Management Framework: Procurement Process*. The Fairness Auditor's interim and final reports concluded that the fairness principles were complied with.

We tested conclusions contained in the Fairness Auditor's report. We:

- interviewed selected individuals involved in the administration of tender processes
- interviewed individuals involved in scoring submissions
- examined correspondence with organizations who obtained the RFQ, or were invited to submit a proposal for the RFP
- examined evidence to determine that RFQ and RFP scoring plans were developed and approved prior to the close of submissions
- reviewed training materials provided to individuals scoring submissions
- examined minutes of Deputy Minister Steering Committee meetings for evidence of interim reporting by the fairness auditor and approval of scoring plans

Based on our work, we concur with the Fairness Auditor's conclusions.

Appendix A—Management frameworks—key processes

Management Framework: Assessment Process

The feasibility analysis is a preliminary analysis that provides evidence that the project has sufficient potential to provide value for money when compared to a traditional procurement process. It is done early so the P3 opportunity can be included in the capital planning process. A detailed business case is not developed until a project is included in a capital plan. The capital planning process is overseen by a Deputy Ministers Capital Planning Committee.

The Capital Plan is designed to assist government decision makers when considering capital grants for supported infrastructure projects. The P3 potential for a project should be identified in the Capital Plan.

The business case is an in-depth analysis that provides evidence that the project can provide value for money when compared to a traditional procurement process. The business case is used to obtain support from the external Advisory Committee on Alternative Capital Financing and approval from Treasury Board to proceed with the project as a P3. Key business case processes include a project risk assessment, a value for money analysis and project approval.

Project risk assessment: Risks are identified and allocated as retained, shared or transferable. For each risk identified, the likelihood, impact and expected value of the risk are identified. Additional qualitative analysis may also be prepared.

Value analysis: The value analysis is based on a comparison between a Public Sector Comparator (PSC) based on historical infrastructure projects and a Shadow Bid that models the project as if it were delivered as a P3 procurement. The value analysis section of the business case should include:

- A full life-cycle cost analysis where all costs and benefits resulting from the P3 alternative are analyzed and compared to the costs and benefits of the public sector comparator. This analysis, which includes both capital and operating expenditures, provides the reader with a total cost picture.
- Clear documentation of all assumptions used to determine costs and benefits. Assumptions, including the discount rate and inflation factors should be applied consistently to each alternative.
- A sensitivity analysis to show the effects of various assumptions on the relative value of procurement options. The analysis should be used to identify the changes in assumptions that are significant enough to change the recommendations. The assessment should also identify which assumptions are most likely to change, the level of uncertainty and the significance of these assumptions in the value for money estimate.
- Qualitative analysis of non-quantifiable costs and benefits.

Management Framework: Procurement Process

To ensure that the procurement process is fair and consistent, the following principles are used as guidelines throughout the process:

- all interested parties, respondents and proponents have the same opportunity made available to access information
- the information made available to interested parties, respondents and proponents is sufficient to ensure that they have the opportunity to fully understand the opportunity
- all interested parties, respondents and proponents have reasonable access to the opportunity
- the criteria established in the invitation documents truly reflect the needs and objectives in respect of the project
- the evaluation criteria and the evaluation process are established prior to the evaluation of submissions
- the evaluation criteria, RFQ/RFP, and evaluation processes are internally consistent
- the pre-established evaluation criteria and evaluation processes are followed
- the evaluation criteria and process are consistently applied to all submissions

Each project should have a project plan and a project schedule. The project plan is done to clarify the scope and responsibility of each entity's work for various tasks throughout the project.

For a fair and competitive process, evaluation criteria and processes need to be established before reviewing any submissions, internally consistent, and consistently applied.

Evaluation teams with appropriate skills and qualifications need to be set up and trained. An appropriate evaluation process, including a process for clarifying questions, needs to be followed. Information submitted must be kept in strictest confidence. Evidence that an appropriate evaluation process was followed should be documented.

A Fairness Auditor is to be engaged to examine all stages of the procurement process and report on the application of the fairness principles.

Upon entering into an agreement, a Value for Money Report should be prepared and published to inform Albertans how value for money was achieved.

Occupational Health and Safety

Summary

Alberta faces OHS challenges

Like other provinces, Alberta faces challenges in occupational health and safety (OHS). In 2007, Alberta ranked third in the number of incident-related fatalities, after Ontario and Quebec. Occupational disease is the leading cause of all occupational fatalities in Alberta. The rate of reported occupational injuries in Alberta has declined gradually over recent years.

Department is responsible for OHS mandate

The Department of Employment and Immigration is responsible for implementing the government's occupational health and safety policy. The Department carries a regulatory mandate under the *Occupational Health and Safety Act*. The Alberta Workers' Compensation Board administers compensation programs and helps workers return to the workplace. Employers and employees have a responsibility to report occupational incidents and help ensure healthy and safe workplaces in the province.

Approximately $23 million spent on OHS programs

The Department spent about $23.3 million for OHS programs in 2008–2009. Of this amount, the WCB contributed about $21.7 million. In 2008, WCB coverage extended to 1.8 million workers. This represents approximately 90% of the Alberta workforce, compared to a national average of 84%.[1]

What we examined

Our objective was to determine whether the Department has adequate systems to promote, monitor, enforce and report on its OHS goals and objectives. We focused on OHS systems at the Department of Employment and Immigration. We obtained OHS-related information from organizations that work closely with the Department, such as the WCB, certifying partners and other non-government representatives.

Why this is important to Albertans

OHS has broad social and economic impacts

Virtually all occupational injuries, diseases and fatalities are preventable. The impact of workplace injuries, illnesses and fatalities reaches well beyond workers and their families and leads to broader negative economic and social consequences, including:

- Workers may lose their level of income, health and sometimes their lives.
- The WCB pays about $650 million per year in injury and illness claims, funded by employers through their premiums. Employers face additional costs such as legal expenses, increased hiring and training costs, damage to equipment and loss of productivity.

[1] WCB 2009 industry statistics and analysis by the Department.

- Injuries and diseases not reported to the WCB are treated and ultimately funded by the health care system.
- Injuries and diseases that are properly reported to and compensated by the WCB may still place additional strain on other service providers. For example, while the cost of medical treatment is covered by the WCB, the treatment itself competes for limited medical resources within the health care system.

What we found

OHS systems can be improved

Overall, the Department has systems to promote, monitor, enforce and report on OHS goals and objectives but they can be improved.

Enforcing compliance with the Occupational Health and Safety Act

Serious weakness in dealing with persistent non-compliance

There are serious weaknesses in the Department's systems to deal with persistent non-compliance. The Department does not have a clear decision ladder for escalating compliance action from promotion and education to enforcement.

Persistent non-compliers have higher injury rates

A small but high-risk group of employers consistently fail to comply with OHS orders, often despite numerous reinspections by the Department. There are also weaknesses in the Department's system to suspend OHS orders.[2] Employers with open and suspended OHS orders had Disabling Injury Rates[3] that were three to four times the provincial average. Our examination of these compliance files did not show evidence of strong systems at the Department to select and deliver appropriate enforcement action.

Half of non-compliers also hold a COR

Half of those employers that persistently fail to comply with the *OHS Act* also continue to hold a valid Certificate of Recognition (COR), [4] and continue to have elevated injury rates among their workers. In short, although these employers do not comply with OHS orders, and their workers are much more likely to get injured on the job, these employers continue to receive Partners in Injury Reduction financial rebates and use their COR to bid on contracts with major companies in such industries as construction, and oil and gas. At the time of our audit, the Department

[2] OHS officers identify contraventions and issue orders requiring employers to take appropriate corrective action. Where imminent danger exists, OHS officers issue an immediate work-stop order or stop-use order. The Department may suspend its OHS orders in instances when the unsafe equipment is taken out of use or the worksite closes permanently, and health and safety risks are no longer present.

[3] The Disabling Injury Rate (DIR) measures the number of injuries per 100 person years, where injured workers couldn't perform regular tasks and had to be assigned to modified duty until they recovered (e.g., a desk job).

[4] The Department carries the overall responsibility for COR, a program for employers who implement appropriate health and safety systems. Jointly with 14 certifying partners, the Department issues certificates and ensures that the database of employers with a valid COR is up-to-date. The WCB relies on this database to issue rebates to participating employers. Employers who hold a valid COR are eligible for up to 20% rebate of their WCB premiums under the WCB's Partners in Injury Reduction program. Major companies in such areas as oil and gas and construction require their contractors to hold a valid COR in order to bid for contracts. The COR program is a collaborative tool pioneered in Alberta that shows considerable promise in reducing workplace injury rates.

was working to strengthen the design and the implementation of the process to deal with such COR employers.

OHS planning and reporting

OHS planning and reporting systems can be improved

The Department has adequate systems to review and update the *Occupational Health and Safety Code*. However, our audit identified that the Department's systems to plan and report against OHS goals and objectives could be improved. The Department needs to update the *Work Safe Alberta Plan*, improve performance measures used to assess the effectiveness of the OHS program, and obtain additional data on chronic injury and disease to improve its assessment of OHS risks.

Proactive inspections

Proactive inspection systems are in place, but can be improved

While our audit revealed areas for improvement, the Department's proactive inspection system is well designed and implemented. The Department conducts proactive, risk-based inspections and can demonstrate an overall injury rate reduction for targeted employers. However, criteria for employer selection under some proactive inspection initiatives are not clearly defined, and not consistently followed by all compliance staff.

Certificate of Recognition

Department, together with certifying partners issues COR

The Department and the certifying partners have made considerable progress in improving their systems to issue COR over the last several years. The Department has systems to provide quality assurance over most stages of the COR process. With input from certifying partners, the Department sets program requirements and procedures, and relies on certifying partners to coordinate the work of individual COR auditors. The Department conducts periodic reviews of certifying partners to ensure that their COR activities are consistent with program requirements.

COR quality assurance system in place but requires enhancement

The COR system assesses the work of auditors through a review of audit reports, but does not confirm the quality of fieldwork done by the auditors. The Department and the certifying partners are working to close this gap with the implementation of the On-Site Audit Review pilot project. The Department also needs to improve its systems to follow-up on recommendations it issues to certifying partners.

Legislated permit and certificate programs

Control over asbestos certificates needs improvement

The Department does not have an effective system for controlling the issuance of asbestos certificates. The Department also needs to ensure that it consistently monitors and approves the work of external training agencies in asbestos certificate and blaster permit areas.

Audit objective and scope

Our objective was to determine whether the Department has adequate systems to promote, monitor, enforce and report on OHS goals and objectives.

Our examination focused on the Department of Employment and Immigration. We examined OHS systems that were in place from April 2008 to September 2009. As part of our work, we examined OHS-related documentation for Alberta and other jurisdictions, interviewed Department's management and staff, examined samples of files (e.g., inspections, investigations, permits, COR), as well as accompanied the Department's staff in the field (e.g., inspections, COR audit review visits).

We obtained OHS-related information from organizations that work with the Department, such as the WCB, the certifying partners and other non-government organizations. We did not audit the information provided by these entities to the Department; we limited our scope to OHS systems at the Department.

Background

Overall OHS situation and trends—Canada

OHS research shows that each year there are at least 1,000 work-related fatalities in Canada, and over 300,000 workers incur injuries or illnesses that interrupt, limit or end their careers.[5] While OHS remains a serious issue in Canada, over the last several decades there has been an overall improvement in the safety of Canadian workplaces. From 1970 to 2005, there was a 50% decline in work fatalities and injuries.[6] While much of the improvement over the years came from reduction in acute workplace injuries, changes in chronic injury[7] rates are less evident.

In general, occupational injuries and fatalities fall under two broad categories:

- injuries and fatalities linked to some specific incident or event (e.g., explosion, fall, motor vehicle accident)
- injuries and fatalities that result from long-term exposure to harmful agents or other harmful factors in the work environment

Most jurisdictions in Canada monitor the OHS environment by:

- employer self-reporting
- worker claims
- external inspections
- joint worker—management safety committees

[5] Association of Workers Compensation Boards of Canada (AWCBC), 2007.
[6] Canadian Centre for Occupational Health and Safety (CCOHS), 2007.
[7] Chronic injuries may not be linked to a specific incident, time or place. They result from long-term exposure to hazardous conditions or substances. Examples include some cancers, back problems, joint problems, some mental health conditions, etc.

- population surveys
- OHS management system audits

Most of these components are present in Alberta's OHS regulatory systems. Joint worker-management safety committees are required by legislation in most provinces. In Alberta, the establishment of joint worker-management safety committees at specific worksites is voluntary. However, the *OHS Act* gives the Minister authority to mandate joint worker-management safety committees by a direct ministerial order.

Key Alberta OHS indicators and statistics

Cross-jurisdictional comparisons are difficult

The methodology for calculating OHS indicators varies between jurisdictions. In addition, OHS legislation in some provinces excludes certain industries from regulation (e.g., unlike other provinces, Alberta does not regulate agriculture and farming under its OHS legislation). Statistics for excluded industries are not reflected in OHS indicators.

Workplace fatalities

166 Alberta fatalities in 2008

In 2008, there were 166 occupational fatalities in Alberta (154 in 2007), with the following breakdown:

- 64 occupational disease fatalities
- 52 fatalities resulting from workplace incidents
- 50 work-related motor vehicle fatalities

The increase in fatalities is roughly equivalent to the increase in the Alberta workforce. In 2007, Alberta had a fatality rate of 8.7 per 100,000 workers, compared to a national average of 7.5.[8]

The lost-time injury rate

Lost-time injuries below national average

This indicator tracks the time workers stay off work due to injuries. The Alberta lost-time claim rate (per 100 person-years worked) has decreased from 2.12 in 2007 to 1.88 in 2008. Reported injury frequency in Alberta in 2007 was below the national average.[9]

The Disabling Injury Rate (DIR)

Disabling injury rate indicator unique to Alberta

The DIR is a more comprehensive indicator that includes injured workers on modified duty. The DIR includes workers who cannot work their next shift or have to be placed on modified work to accommodate their injuries. The Alberta DIR (per 100 person-years worked) has decreased from 4.14 in 2006 to 3.63 in 2008.[10]

---

[8] Analysis by the Department, 2009.
[9] Analysis by the Department, 2009.
[10] Ibid.

Cross-jurisdictional comparisons are not available for this indicator because other jurisdictions do not systematically measure the impact modified work has on injury rates.

OHS regulatory environment in Alberta

Department carries OHS mandate in Alberta

The two main entities with the OHS mandate in Alberta are the Department of Employment and Immigration, and the WCB. The Department administers the *Occupational Health and Safety Act*. The Department administers and periodically reviews the *Occupational Health and Safety Regulation* and the *Occupational Health and Safety Code*. The oversight for the *Code* review is provided by the OHS Council, which is made up of industry, labour and public representatives who provide advisory and other functions as required by the Minister.

Key Alberta OHS regulatory programs and initiatives

OHS strategy

Work Safe Alberta Strategy

In collaboration with representatives from industry and labour, the Department introduced the *Work Safe Alberta* Strategy, outlining specific objectives and setting performance measures. OHS goals and objectives are also reflected in the Department's business plan and divisional operating plans. To better manage its efforts in the occupational disease area, the Department plans to create the Occupational Disease Unit.

Certificate of Recognition

COR is a unique tool pioneered in Alberta

Prevention, promotion and education activities are an important part of the Department's efforts in the OHS area. The Department collaborates with industry, labour and other government organizations on specific OHS initiatives. Such initiatives may target specific types of work (e.g., working with electricity) as well as specific categories of workers (e.g., young workers, foreign workers). One of the key OHS promotion instruments is the Certificate of Recognition, issued under the Partners in Injury Reduction program to employers who implement appropriate health and safety systems. The COR initiative adopts a collaborative approach between the government and the industry.

WCB rebates issued to employers with valid COR certificates

Certificates of Recognition and applicable rebates to participating employers are formally issued under the WCB's Partners in Injury Reduction program. However, the Department is responsible for all certification activities and, jointly with the certifying partners, issues COR and maintains the database of employers with valid certificates. The WCB then issues annual rebates to employers who hold valid COR, based on the COR database. The COR rebates can amount to up to 20% of employers' annual WCB premiums. COR are not required under the legislation and employer participation is voluntary.

COR covers 40% of Alberta workers

Over 7,800 employers hold a COR, representing $31.4 billion in insurable earnings and about 40% of the Alberta workforce.[11] Alberta was the first to pioneer this collaborative approach to OHS in Canada. The Department dedicates a total of 16 staff to the COR activities, including managers and administrative support staff, at an annual cost of approximately $2.5 million.

Inspection systems

Proactive and reactive investigations

The Department monitors compliance through a system of proactive inspections that target higher risk employers and industries. The Department also investigates complaints, accidents and fatalities. The Department's approach is to help employers by educating both management and workers, and by providing necessary information and resources. The Department emphasizes education, promotion and prevention, with prosecution being reserved for the most serious cases.

Compliance enforcement

Department has various enforcement options available

Whenever contraventions with the *OHS Act* are identified, the Department has the following tools at its disposal:

- OHS officers may order an employer to take corrective action. Contraventions that pose imminent danger result in a work-stop order for a portion of the worksite or a stop-use order for specific equipment. The Department may escalate the situation by issuing a director's order. If employers do not act on OHS orders immediately, the Department may explore options to engage the company's senior management or shareholders before taking prosecution action.
- The Department can recommend that Alberta Justice initiate prosecutions.
- To achieve immediate compliance with some types of OHS orders, the Department can apply for an order of Court of Queen's Bench. If application is successful, continued non-compliance by the employer will result in contempt of the court and may lead to criminal charges against individuals.

Although joint worker-management safety committees are not an enforcement tool, it is an option available under the *OHS Act* to promote better OHS practices at individual worksites.

OHS permits and certificates

Permits and certificates required for asbestos, blasters, mining

The *OHS Act* identifies special areas where individual permits and certificates are required for specific occupations or substances. The Department administers the systems to issue permits and certificates to employers and workers, enabling them to work in areas of asbestos abatement, mining activities and explosives. To obtain such permits and certificates, applicants must take approved training and/or apprenticeship and provide all information required by the Department.

[11] Analysis by the Department, 2009.

Approves training provided by agencies

In case of asbestos certificates and blasters permits, the Department approves the training provided by agencies. Workers or their employers pay for the training. Blaster permits are issued for a period of five years and asbestos and mining certificates are issued for a period of three years. After three years, workers have to reapply, renew their training and take applicable exams.

50 of 64 occupational disease fatalities in 2008 related to asbestos exposure

Asbestos exposure is a particularly important area. In Alberta, asbestos exposure was a factor in 50 out of 64 occupational disease fatalities reported by the WCB in 2008.[12] While asbestos is no longer used in new construction, it is often present in older structures and poses health risks to workers and the public during renovation and demolition activities. Alberta is the only province that legislatively requires asbestos training certification.

OHS risks and challenges

Increasing importance of occupational disease

Occupational disease is an emerging issue

Historically, most reporting, enforcement and education activities were largely based on injuries and fatalities data, and less on chronic injury and disease data. The area of chronic occupational injury and disease poses regulatory challenges. For enforcement purposes, it is often difficult to prove the cause and effect relationship. Program performance evaluation is also difficult because today's chronic illness injury rates result from damage and exposure that took place years or decades ago. Conversely, today's corrective actions may not show results for some years to come. Research indicates that the key to success in this area is in identifying harmful elements and conditions as early as possible and taking preventive action.[13]

Early detection and prevention of occupational exposure are key

As the nature of occupational exposure constantly changes, new potential links between chronic illness and the workplace continue to emerge. Historically, many years may pass before the initial indications of risk emerge and the corresponding regulatory action takes place. For example, in Canada, asbestos exposure was suspected to cause serious health problems at least as far back as the 1940s, yet asbestos was widely used in construction until the early 1980s.

Lack of systematic data

One of the key challenges with occupational disease is the overall lack of systematic, conclusive research to investigate chronic injuries and diseases that have suspected links to the workplace, but are not presently compensable. For example, recent estimates obtained by the Department from the Alberta Cancer Board (now part of Alberta Health Services) show that out of 5,700 new cancer cases identified each year, as many as 760 could be work-related. Yet, in 2008, only 31 new cancer-related claims were recorded by the WCB.[14] A well-coordinated research effort is

[12] The Department's publication of summaries for all occupational disease fatalities accepted by the WCB, http://www.employment.alberta.ca/SFW/2573.html
[13] Saskatchewan Institute of Public Policy, http://www.uregina.ca/sipp/documents/pdf/BN_23_Walker_online.pdf
[14] Analysis by the Department, 2009.

key to proactively identifying and confirming links between the disease and the workplace. The Department is in the early stages of collaborating with Alberta Health Services and Alberta Health and Wellness to develop a provincial strategic partnership in occupational cancer prevention.

Underreporting of injuries by workers and employers

Concerns over underreporting

Our review of OHS literature indicates that complete and accurate reporting of injury data remains a serious concern across all Canadian jurisdictions. Some sources in OHS literature suggest that underreporting not only downplays the impact of OHS issues, but may lead to under-resourcing of OHS programs and initiatives. Conclusive research on underreporting is generally lacking in Alberta and the rest of Canada. The costs of unreported injuries are absorbed by other service providers such as the healthcare system and other government and non-government social support services.

Findings and recommendations

1. Promoting and enforcing compliance

Recommendation No. 3

We recommend that the Department of Employment and Immigration enforce compliance with the *Occupational Health and Safety Act* by employers and workers who persistently fail to comply.

Background

The Department's *Operational Procedures Manual* sets requirements and provides guidance on inspection activities, complaint response, incident response, investigation activities, promotion and enforcement activities, as well as various administrative matters.

Various enforcement tools are available

OHS officers identify contraventions and issue orders requiring employers to take appropriate corrective action. Where imminent danger exists, OHS officers issue an immediate work-stop order or stop-use order. In cases of serious or repeated contraventions, the Department could issue a Director's Order. A compliance file should not be closed and OHS orders should not be lifted until an OHS officer confirms compliance by conducting a reinspection. The Department can suspend its OHS orders, but only in individual cases when the unsafe equipment is taken out of use or the unsafe worksite closes permanently, and the risk is no longer present.

Fines and enforcement

Under the *OHS Act*, fines and enforcement must be delivered through the courts. Available enforcement tools range from fines to criminal charges against individual employees of a corporation. The Department, working with the Civil Prosecutions Unit at the Department of Justice, can seek an order of

the Court of Queen's Bench. Once an order is secured, continued non-compliance will result in contempt of the court potentially leading to charges against individuals. An order of the Court of Queen's Bench is designed to take immediate, preventive legal action in cases where significant imminent danger is present. In cases where serious incidents have occurred, management may request the Department of Justice to decide if the matter warrants prosecution and whether charges will be laid. For 2008, the Department of Employment and Immigration reported 22 OHS prosecutions. Names of employers charged and convicted under the *OHS Act* are published on the Department's website.

Criteria: the standards we used for our audit

The Department should promote and enforce compliance with the *OHS Act*, the *Regulation* and the *Code*.

Our audit findings

Weaknesses in tracking and applying decision ladder for dealing with persistent non-compliance

The Department's systems to enforce compliance with the *OHS Act* are working effectively except in dealing with employers and workers who persistently fail to comply. The Department does not systematically identify and track persistent non-compliance, and does not have a clear decision ladder for escalating compliance action from promotion and education to more strict enforcement. The Department has systems to respond to fatalities and other serious incidents with an appropriate and timely action.

Tracking and confirming compliance with OHS orders

Lack of strong systems to identify and act on persistent non-compliance

The Department's inspection, communication and follow-up actions were timely and consistent up to the point where contraventions were identified, OHS orders were issued and initial reinspections took place resulting in compliance. However, the situation is different when the Department encountered persistent non-compliance that posed health and safety risks, but had not yet resulted in an accident or injury. Our examination of 20 compliance files with orders that remain open for over one year did not show evidence of strong systems to select and deliver timely and appropriate action.

Inspections and reinspections are done

OHS officers reinspect[15] problem worksites and personally confirm compliance. In our sample of 60 proactive inspections targeted at individual employers, the average time from issuing OHS orders to achieving compliance was 86 days. In most cases, employers achieved compliance after repeated reinspections by OHS officers. We observed that employers who held Certificates of Recognition on average complied with OHS orders faster and required fewer reinspections. Whenever fatalities or other serious incidents

[15] Re-inspections are done in all cases, unless sufficient documentation is obtained in other ways (e.g., training records provided by fax, a photograph of installed guard railing sent by email).

were involved, the Department launched investigations, which frequently resulted in prosecution action.

Some employers continually fail to comply with OHS orders

However, a number of employers continually fail to comply with OHS orders. We selected five months from 2007–2008 and reviewed the status of all 3,392 orders issued by the Department during this period. Most employers complied with OHS orders. However, 109 OHS orders (3.2% of all orders written) for 63 employers were still open.[16] The majority of these employers have fewer than 200 workers. Their combined workforce accounts for over 31,000 full-time jobs.

Elevated injury rates for these employers who continually fail to comply

These 63 employers failed to comply with OHS orders after one year or more. This happened despite numerous reinspections by the Department. Our analysis of all 109 open orders shows that this group of employers' average Disabling Injury Rate (DIR) is three to four times the provincial average.[17]

Contravened orders

We examined compliance files for a sample of 20 employers, with a total of 35 open OHS orders. We focused on employers who had the highest DIRs. Contraventions were usually in the following areas:

- lack of hazard assessment systems
- absence of personal protective equipment (e.g., respiratory protection, hearing protection, eye protection)
- lack of fall protection equipment
- inadequate systems to control chemical and biological hazards
- absence of safeguards on equipment
- inadequate certification and training
- fire and explosion hazards

Our review of compliance action during the five months also revealed that 110 orders for 47 employers were suspended by the Department. The majority of these employers have less fewer than 200 workers. Their combined workforce accounts for over 16,000 full-time jobs. Our analysis of data for all 110 suspended orders for the five-month period revealed that this group of employers' average DIR was three to four times above the provincial average.

Inappropriate OHS order suspensions

We examined compliance files for 18 employers, with a total of 47 suspended orders. We focused on employers who had the highest DIRs. Reasons for suspension were not consistent with the Department's guidelines for 14 out of 18 employers. The most frequent reason for suspension was: "Compliance will be verified in… (the next fiscal year)." The majority of orders were suspended

[16] With extrapolation, we estimate there could be as many as 261 open OHS orders for 2007–2008.
[17] The Disabling Injury Rate (DIR) measures the number of injuries per 100 person-years, where the injured worker couldn't perform regular tasks and was assigned to modified duty until they could recover (e.g., a desk job).

simply to be reopened in the next fiscal year as new orders. This practice skews compliance statistics and may present management with a compliance picture more favourable than it really is. For most of the suspended orders that were later reopened, we saw no evidence that employers took action on the original contraventions.

Some persistent non-compliers hold Certificates of Recognition

We performed further analysis of data for 20 employers with open orders and 18 employers with suspended orders. Half of these employers held or still hold a valid Certificate of Recognition. In short, these employers do not comply with OHS orders and their workers are much more likely to get injured on the job, yet these employers continue to receive Partners in Injury Reduction financial rebates and use their COR to bid on contracts with major companies in such industries as construction, and oil and gas. While the Department has a COR employer review process to deal with such employers, the process is not used systematically and effectively. At the time of our audit, the Department was working to strengthen the design and the implementation of the process.

Overall, COR shows promise

It must be noted that, overall, the Department's preliminary analysis of the COR program shows that employers who hold valid COR achieve greater reduction in injury rates, on average, than non-COR employers. Our examination of a sample of compliance files also shows that COR employers tend to comply with OHS orders faster and require fewer reinspections than non-COR employers.

Enforcement action

Department does not have a clear enforcement decision ladder

The Department's *Operational Procedures Manual* outlines actions to be taken when employers fail to comply with OHS orders, but it does not always provide clear and specific criteria for when and how to take specific steps to fix the problem. The *Manual* does not provide a clear decision ladder for escalating compliance action from promotion and education to enforcement.

The Department does not use all tools at their disposal to enforce compliance. For instance, the Department has not applied in the past for the order of the Court of Queen's Bench. At the time of our audit, the Department was initiating the first case for one instance of continued non-compliance. This compliance instrument is designed to deal with different issues and is appropriate in specific circumstances. However, the Department does not have clear criteria for applying this instrument or rationale for choosing not to apply it.

Prosecution is not always the best option

It is important to emphasize that individual compliance tools are most appropriate for specific situations, and should not be universally applied to every instance of non-compliance. For example, although generally effective, prosecutions are extremely expensive and may take anywhere from two to six years. Therefore, initiating prosecutions for less critical matters may not be perceived as reasonable and may simply not be practical. The Department reserves this tool for serious incidents that resulted in injury or death. On the other hand, promotion and education actions are the least expensive, can be fast and are most employer and worker-friendly.

Implications and risks if recommendation not implemented

Without adequate systems to enforce compliance with OHS legislation for those employers and workers who persistently fail to comply, health and safety of workers continue to be exposed to otherwise avoidable risks. Employers who choose not to comply with OHS orders may gain an unfair advantage over employers who spend the time and resources to deal with and avoid contraventions.

2. Work Safe Alberta planning and reporting

Recommendation

We recommend that the Department of Employment and Immigration improve its planning and reporting systems for occupational health and safety by:

- **obtaining data on chronic injuries and diseases to identify potential occupational health and safety risks**
- **completing the current update of the *Work Safe Alberta Strategic Plan***
- **measuring and reporting performance of occupational health and safety programs and initiatives that support key themes of the *Plan***

Background

Work Safe Alberta Strategy and Plan

The Department coordinates the development and implementation of the provincial *Work Safe Alberta Strategy*. Its objectives and performance measures are reflected in the *Work Safe Alberta Three-Year Strategic Plan* (2006–2008). *Work Safe Alberta* objectives include increasing awareness; expanding partnerships between government, industry and labour; strengthening regulatory framework; improving compliance; expanding safety training; and improving research and performance reporting. Performance measures include public perceptions, awareness and satisfaction indicators obtained through periodic surveys, as well as provincial lost-time claim rate and Disabling Injury Rate.

Criteria: the standards we used for our audit

The Department should monitor, measure and report progress against OHS goals and objectives and assess the cost effectiveness of programs. To achieve this, the Department should:

- obtain and analyze data to identify OHS risks, including a process to collaborate with other provincial and national OHS stakeholders
- measure and report the progress against the *Work Safe Alberta Plan*
- periodically review regulations and the *Code* to ensure they support *Work Safe Alberta* strategies, objectives and performance measures

Our audit findings

Planning and reporting systems are in place, but require improvement

The Department has a *Work Safe Alberta Strategic Plan* (2006–2008) and has systems to identify and reduce OHS risks. However, the Department has not updated or regularly reported against the *Plan*. The Department has not reported on the effectiveness and efficiency of key OHS programs and initiatives that support the *Plan* (e.g., proactive inspection programs, Certificate of Recognition program). The Department does not have sufficient information on OHS risks related to occupational disease. The Department has adequate systems to review and update the *Occupational Health and Safety Code*.

Identifying and managing OHS risks

Data obtained does not capture all emerging OHS risks

The Department bases its OHS risk analysis almost exclusively on the WCB occupational injury data, which provides information only on injuries and diseases that are presently reportable and compensable. The data obtained by the Department does not capture emerging OHS risks, particularly links between occupational disease and workplace exposure.

Injury data analyzed

The Department performs comprehensive and detailed risk analysis of injuries linked to specific incidents in the workplace. While the risk of underreporting exists, the Department and the WCB recognize the issue and work to improve reporting through education and promotion. Workers and employers are ultimately responsible to report all injuries and incidents.

Occupational disease data is limited

The availability of reliable OHS data on occupational disease is limited, but there are sources of valuable information such as the health care system. To better manage its efforts in the occupational disease area, the Department plans to create the Occupational Disease Unit. There are efforts to begin obtaining data from the Department of Health and Wellness for analysis of diseases and disabilities not related to specific incidents (e.g., chronic conditions, cancers).

Cross-jurisdictional collaboration

The nature of occupational exposure is similar across jurisdictions. Therefore, this area presents opportunities for interprovincial collaboration. The Department's efforts focus on OHS education, alignment of standards and requirements, but to a much lesser extent on pooling data and resources with other jurisdictions to investigate and reduce specific OHS risks in the occupational disease area.

Planning and reporting

Plan not updated or regularly reported on

The Department has not updated or regularly reported on the *Work Safe Alberta Strategic Plan*. At the time of our audit, the Department has published the progress report against the 2006–2008 Plan and was working on a 2010–2013 update of the *Work Safe Alberta Strategy*.

Measuring performance of OHS programs

Need better measures to assess effectiveness and efficiency

The performance measures in the 2006–2008 *Work Safe Alberta Strategic Plan* do not fully assess effectiveness and efficiency of OHS programs or the *Plan's* key themes. Five out of seven performance measures in the *Plan* provide stakeholder satisfaction survey results, and the remaining two provide broad province-wide injury statistics (e.g., DIR and lost time claims rate). While these measures provide a general view of the OHS situation in the province, they do not allow the Department to conclude on effectiveness and efficiency of specific OHS strategies, programs and initiatives. The Department also periodically released data on injury rates, fatalities, prosecutions and so forth, but did not link this information to specific programs and initiatives.

The Department is working to improve its performance measures. Detailed OHS data is generally available for many OHS programs and initiatives. Operational OHS monthly reports on a branch/unit level provide detailed data such as the number of inspections and investigations performed, and injury rates in high-risk industries. The Department has recently performed some preliminary analysis of efficiency of OHS programs. While the work to refine the methodology is under way, this analysis aims to assess injury reduction per dollar spent on different OHS programs. Such analysis is important for directing resources to OHS programs that demonstrate greatest reduction in injuries, diseases and fatalities.

Review the Code and the Regulation

Good systems in place to update *Code* and *Regulation*

The Department has adequate systems to review and update the *Occupational Health and Safety Code*. With oversight from the Occupational Health and Safety Council, the *Code* is reviewed and updated on a regular basis through a process that involves formal consultation and feedback from industry and labour stakeholders. The *Occupational Health and Safety Regulation* was enacted in 2003 and will be due for its first review and update in 2013.

Implications and risks if recommendation not implemented

Without appropriate and timely planning, performance measurement and reporting the Department cannot demonstrate that it achieves its objectives effectively and efficiently.

3. Occupational Health and Safety inspection systems

Recommendation

We recommend that the Department of Employment and Immigration strengthen its proactive inspection program by improving risk focus and coordinating employer selection methods for its inspection initiatives.

Background

The Department's inspection activities fall under two main areas: proactive inspections and reactive inspections.

Proactive inspections based on risk

Proactive inspections target high risk employers and industries

The Targeted Employers Working Committee selects specific, high-risk employers and industries for proactive inspections. The Committee includes members from all OHS areas within the Department. The Committee reviews data obtained from the WCB, determines the selection criteria based on high injury levels and compiles the list of employers and industries[18] to be targeted in the next year's inspections. Each year, approximately 500 employers are selected and account for a total of about 2,000 site visits. Separate from targeted employers, targeted industry inspections account for an additional 3,400 visits per year. Some of these employers may also be contacted by the Department's staff in the partnerships area to promote compliance through involvement in the Certificate of Recognition program.

Reactive investigations of complaints, worksite incidents and fatalities

Reactive investigations prioritized by severity and risk

The OHS Program branch receives over 20,000 calls per year with reports of alleged OHS contraventions. These calls are reviewed by compliance staff to determine where investigations are required. In 2008, the Department completed 4,234 investigations. Some investigations are done by OHS officers, and more serious ones are done by OHS investigators. OHS investigators have extensive experience in OHS and additional training in such areas as evidence collection, interviewing techniques and prosecution requirements. Senior management within the Department decides whether to forward their reports, together with documented evidence, to the Department of Justice with a request to consider prosecution.

[18] High-risk industries include commercial and residential construction, oil and gas, health care and forestry industry operations. The Department also undertakes special projects targeting specific worker types (e.g., temporary foreign workers).

Given the volume of calls, compliance managers and OHS officers have to prioritize their activities and respond to some complaints and minor incidents over the phone. For some minor incidents, OHS officers order employers to submit an incident report that provides incident analysis and outlines the corrective action taken.

Criteria: the standards we used for our audit

The Department should inspect employers based on risk, as well as investigate workplace complaints and incidents.

Our audit findings

Compliance systems are in place, but require improvement

Overall, the Department has systems to inspect employers based on risk and to respond to complaints and incident reports. Areas for improvement include methodology for selecting individual employers under the targeted industries program, and focusing proactive inspections on all aspects of OHS risk. Our findings are based on the examination of 80 inspection files.

Proactive inspections

Process to select individual employers may not be optimal

Targeted Industries Inspections—While the Department identifies industries based on risk; there is no clear guidance on how to select employers within all targeted industries. For some industries, individual OHS officers are directed to inspect sites by location rather than employer safety history. This process is appropriate for some industries. However, it may not be the optimal selection criteria for other industries. Also, OHS officers may not apply employer selection criteria consistently to all employers. For example, in some instances there was indication that some employers were selected based on proximity and visibility, rather than through a systematic sampling procedure.

Scheduling of proactive inspections not entirely risk-based

Scheduling of Inspections—While the Department selects targeted employers and targeted industries based on risk, scheduling of proactive inspections is not entirely risk-based. At the time of our audit, virtually all proactive inspections were done Monday to Friday, and during regular business hours. However, our analysis of the 2006–2009 data provided by the WCB shows that 12.6% of all workplace incidents happen between 6 p.m. and 6 a.m., and 10.3% between 6 a.m. and 9 a.m. Approximately 13% of all incidents take place on Saturdays and Sundays.

Good system in place to inspect targeted employers

Targeted Employers Inspections—OHS officers inspect selected high-risk employers and follow-up on contraventions. Although there were some inconsistencies among OHS officers in documenting inspection details, this system is generally well implemented.

Timely response to fatalities and serious incidents

Reactive investigations of complaints, worksite incidents and fatalities

The Department has systems to receive and respond to complaints and incidents in a timely and appropriate manner. The Department takes timely action to investigate and respond to serious incidents. Fatalities and serious injuries are usually responded to within hours. The Department responded to incidents that resulted in minor injuries or damage to equipment within two or three days. The Department responded to general complaints and/or information requests within 18 days. We conclude that these results are reasonable, given the volume of reported incidents and complaints. The Department does not assign specific response time targets, but requires its compliance staff to prioritize their activities based on incident severity and risk.

Implications and risks if recommendation not implemented

Without focus on risk, the Department's proactive inspection program will not target all employers, industries, work activities and worker categories with greatest risks to health and safety of workers. Without coordinating employer selection under different inspection initiatives, the Department would not be able to maximize efficiency or demonstrate that the desired employer coverage within targeted industries is achieved.

4. Certificate of Recognition

Recommendation

We recommend that the Department of Employment and Immigration improve its systems to issue Certificates of Recognition by:

- **obtaining assurance on work done by Certificate of Recognition auditors**
- **consistently following-up on recommendations made to certifying partners**

Background

Together with certifying partners, Department sets COR requirements and procedures

With input from the certifying partners,[19] the Department sets Certificate of Recognition requirements and procedures. The certifying partners approve and maintain lists of independent COR auditors that employers may hire on a competitive basis. COR auditors examine employer OHS systems and submit their reports to certifying partners for review. The certifying partners review and approve COR audit reports, as well as deliver training to COR auditors and employers.

[19] Certifying partners are industry groups and safety associations representing large segments of Alberta's workforce.

After certifying partners approve COR audit reports, they enter requests to issue a COR into the database for the Department's final approval. The Department checks requests for administrative completeness and for outstanding orders through its compliance branch, before issuing a COR to employers.

The Department reviews and approves COR training and program development materials for each certifying partner, and both parties work together to ensure consistent program delivery. Every two years, the Department conducts formal reviews for every certifying partner. The Department examines samples of COR audits to confirm that certifying partners' systems operate consistently with program requirements. Formal reports to the certifying partners outline areas of strength and provide recommendations for improvement, with specific deliverables, timelines and responsibility assigned.

Criteria: the standards we used for our audit

The Department should promote OHS in the workplace by ensuring that Certificates of Recognition are issued to qualifying employers and are maintained appropriately.

Our audit findings

COR quality review systems are in place, but need improvement

The Department has systems to provide quality assurance over most stages of the COR process. With input from the certifying partners, the Department sets program requirements and procedures, and relies on certifying partners to coordinate the work of individual COR auditors. The Department conducts periodic review of certifying partners to ensure that their COR activities are consistent with program requirements. Certifying partners review audit reports issued by COR auditors, however a system does not exist to confirm the quality of fieldwork done by the auditors. The Department also needs to improve its systems to follow-up on recommendations it issues to certifying partners.

Quality assurance

Quality assurance exists over most stages of the COR process

While the Department and the certifying partners have made considerable progress in this area over the last several years, gaps in the quality assurance systems remain. Quality assurance activities of the Department and of certifying partners are limited to reviews of audit reports. Both parties recognize the gap and plan to reduce it with the implementation of the On-Site Audit Review Pilot project. Under this project, the Department will confirm detailed COR audit work for a sample of COR audits. The Department and the certifying partners intend to assess project findings and implement a quality assurance system appropriate for the type and level of risks identified. At the time of our audit, the Department and certifying partners were working to finalize terms of reference for the On-Site Audit Review Pilot project.

Certifying partners

Systems to follow-up with certifying partners need improvement

Every two years, the Department reviews certifying partners to ensure that their COR activities are consistent with program requirements and issues recommendations to improve their practices. The Department has systems to follow-up on its recommendations, but their design and implementation require improvement. In five out of 14 certifying partner files, there was no evidence that recommendations were implemented more than one year after reports were issued. The documentation of the Department's follow-up activities was also not consistent. There is no system to centrally track implementation progress.

Some quality assurance information not retained

The Department has an electronic database and systems to support its quality review activities for certifying partners and organize its findings and evidence. However, the Department does not retain this information and discards the review data shortly after reports to certifying partners are issued. This data could provide valuable historical information on systemic issues and gaps in the COR process.

Implications and risks if recommendation not implemented

Without risk-based quality assurance systems, the Department cannot confirm that Certificates of Recognition are issued appropriately and only to qualifying employers.

5. Legislated permit and certificate programs

Recommendation

We recommend that the Department of Employment and Immigration strengthen the legislated permit and certificate programs by improving:

- **control over issued asbestos certificates**
- **processes for approval and monitoring of external training agencies**

Background

Asbestos certificates

The Department approves external training agencies to deliver asbestos abatement training to workers. Exams are developed by the Department and administered by the training agencies. The Department prepares and delivers blank, serial-numbered certificates to training agencies. Training agencies sign and issue certificates to workers after successful completion of the training and periodically report to the Department on the certificates issued. The Department maintains the list of all issued asbestos certificates. In 2008–2009, training agencies issued over 1,000 asbestos certificates.

Blaster permits

The Department approves external agencies to provide blaster training to workers. Workers are required to demonstrate a combination of training and properly supervised practical experience. Applications for blaster permits are received by the Department and should contain all the supporting documentation, as well as the application fees. The Department issues permits to workers and maintains the electronic list of issued blaster permits. In 2008–2009, the Department issued approximately 170 blaster permits.

Mining certificates

The Department performs all training, examination and certification for mining activities. The Department processes approximately 30 new and renewal applications each year and maintains a list of all issued mining certificates. In 2008–2009, the Department issued fewer than 20 mining certificates.

Criteria: the standards we used for our audit

The Department should issue permits and certificates as required by legislation.

Our audit findings

Systems are in place, but need improvement

The Department's systems for controlling the issuance of asbestos certificates and for approving and monitoring training activities require improvement in the following areas.

Control over the issued asbestos certificates

Controls over asbestos certificates need improvement

The Department's system to control the issuance of asbestos certificates is not well designed and implemented. For at least 72 presently active employee asbestos certificates, the Department was missing information on whether and to whom these certificates had been issued. The Department also does not have a system to periodically review records held by training agencies to account for asbestos certificates they issue.

OHS officers do not systematically check certificates against Department records during compliance inspections

During our audit work in the compliance area, we accompanied OHS officers on four inspection visits of asbestos worksites. Whenever OHS officers inspect an asbestos abatement project, they ask to see asbestos certificates for the workers involved. However, OHS officers do not systematically check certificates against the Department's database to confirm that certificates are valid. OHS officers do not have immediate access to the database and would have to perform such checks by special requests to another unit within the Department. We directly checked 34 asbestos certificates examined during the field visits, with the following results:

- for one worker's certificate, key information was missing and the Department's records did not match the name of the training agency and the expiry date provided on the certificate

- one certificate was issued for four years instead of the three years allowed under the *OHS Act*
- in four cases the database contained the certificate serial number, but no information on who the certificate has been issued to and when
- there were at least four other cases where important information was either missing or not recorded consistently

Approval and monitoring of external training agencies

Approval and monitoring systems need improvement

The Department doesn't appropriately follow its policies for approving and monitoring the work of training agencies. We sampled seven out of 17 files for asbestos training agencies approved by the Department. At the seven approved agencies, training was provided by 22 course instructors approved by the Department. Approval files did not contain the required supporting information for 12 out of 22 course instructors (e.g., proof of asbestos training/equivalent and/or proof of required instruction experience). The Department has a system to periodically audit asbestos training courses provided by the agencies, but out of all 17 training agencies, at least two agencies have never been audited, and the others had time gaps of up to seven years between the audits.

For blaster training agencies, there was evidence that training content was assessed by the Department. However, approval files for seven out of 11 agencies had incomplete applications or formal approvals.

Implications and risks if recommendation not implemented

Without proper controls, the Department cannot confirm that permits and certificates are issued to and the work is done only by qualified workers. Without systems to assess and approve external training agencies, the Department cannot confirm that the training provided to workers is adequate and consistent with legislated requirements.

Managing Alberta's Water Supply

Summary

Why this is important to Albertans

Water supply management is important

Water supply management is critical to Alberta's continued growth. It also plays a key role in maintaining human health and environmental integrity. Alberta owns the province's surface and sub-surface water resources. To a great extent, the Department of Environment manages water supply because it administers the *Water Act* and the *Environmental Protection and Enhancement Act*.

Water supply issues vary across the province

Alberta's water supply issues vary across the province. In the south, surface water has been fully allocated since 2004 and the major basins are closed to new surface water licences. Developers, municipalities, or irrigators must negotiate with existing water rights holders to obtain allocations in that area. By contrast in the north, preserving the quality of relatively abundant water supplies attracts most attention.

What we examined

We focus on *Water Act* matters

Our audit objective is to determine whether Environment's systems to manage Alberta's water supply are well designed and operate effectively. In this audit, we focus on *Water Act* matters. The *Water Act*, enacted in 1999, provides the legislative foundation for water supply management in Alberta. The *Act* lays out the regulatory process for water approvals and licences, from application through authorization, plus post-authorization inspection, investigation and remediation. The *Act* also enables water supply management tools that did not exist under previous legislation, such as a water allocation transfer market, water management plans and water conservation objectives. While these tools have not yet been fully implemented, Environment's systems will need to support them.

We focus on five areas for this audit

Environment has many businesses related to water supply. During the preliminary phase of the audit, we identified the 17 businesses listed in Appendix A. From those 17, we chose five areas for audit attention at this time: monitoring and reporting, partnerships, capital management and planning, *Water Act* regulatory activities, and integration. Future audits will target other water supply areas at Environment; the chosen five comprise a large audit already.

For two areas, Environment has provided "Management Plans"

Environment could not support detailed audit work on two of the five areas at this time. Resource limitations within the Department and planned system redevelopment argued against detailed testing for monitoring and reporting and partnerships. But, because these areas are critical to *Water for Life*[1] initiatives, Environment has provided "Management Plans" which are reproduced on pages 60 to 65. They outline the issues with the current systems, the system redesign underway, and the direction and timing of expected systems changes.

What we found

Many systems are being re-engineered

Environment has systems to operate and manage its water supply management businesses. Many of these systems have operated for years in generally their current form. As circumstances change, Environment needs to re-engineer many of its systems to achieve efficiency and to meet the demands of a growing province. In some cases, Environment has already introduced new systems to improve efficiency. For example, Environment is developing the WATERS computerized system to handle its temporary diversion licence application processing business. But Environment needs to do more re-engineering to ensure its systems operate efficiently and effectively.

Monitoring and reporting and partnerships are "core" to *Water for Life*

Monitoring and reporting and partnerships are two of three "core areas" described in *Water for Life*.[2] To make and monitor the impact of water supply decisions, Environment needs an effective and efficient environmental monitoring, reporting, and evaluation system. To achieve the goals of *Water for Life*, Environment relies on partners to deliver key contributions such as integrated watershed management plans. The "Management Plans" prepared by Environment alert readers to significant systems redevelopment in these areas.

Capital planning

The Department owns hundreds of dams, canals, and related assets, mostly in southern Alberta. Environment monitors the condition of these structures and has identified a number of dam rehabilitation projects. As we follow up our 2007 audit, "Prioritizing and Managing Alberta's Infrastructure Needs", and report on our results in October 2010, we will examine the processes for ranking these projects in relation to other infrastructure proposals.

Three issues with *Water Act* regulatory activities:

Environment has regionalized the delivery of its *Water Act* regulatory businesses. Approval writers at the six district offices process applications while regional inspectors check for non-compliance in the field. Environment needs to deal with three issues related to these businesses.

[1] *Water for Life* is the Alberta government's major water policy statement. Readers can access information about it on the website: http://www.waterforlife.alberta.ca/.
[2] The third is water conservation.

A large backlog of applications must be cleared

First, Environment should clear a large backlog of *Water Act* applications. According to Environment's information system, the number of applications for *Water Act* licences and approvals in the backlog is about double the number processed in a year. Applicants have waited as much as seven years for their licences or approvals. As well, Environment's information system does not have accurate data on these outstanding applications. Environment needs to enhance its system so it can process this backlog efficiently and provide effective support for its own and its applicants' initiatives.

Assurance required that holders comply with their authorizations

Second, Environment needs stronger systems to ensure that licence and approval holders comply with the conditions in their authorizations. Environment's approval writers do not follow-up issues identified through routine control processes. But when Environment inspects or reviews licence and approval holders' performance, it finds many cases of non-compliance. Environment's control systems must provide assurance that licence and approval holders as well as others comply with *Water Act* requirements.

Third, Environment needs to formalize its relationships with partners and monitor those relationships more closely. We make recommendations in two instances.

Wetlands compensation process should be formalized and monitored

Applicants who destroy wetlands in the course of their projects must provide compensation. The compensation is based on Environment's revised "Provincial Wetland Restoration/Compensation Guide". The "Guide" names Ducks Unlimited Canada (DUC) as Alberta's wetland restoration agency. Before receiving approval from Environment, the applicant must pay wetland compensation to DUC; DUC then restores wetlands near the destroyed site. This relationship began in 2005, yet Environment and DUC have no agreement in place covering restoration activities, nor does Environment monitor DUC's work or review its financial summaries.

Grants and contracts with WPACs require more scrutiny

Alberta has ten Watershed Planning and Advisory Councils (WPACs). WPACs are not-for-profit partners that involve local stakeholders in watershed management. Each WPAC receives an annual grant from Environment for core services such as office salaries and expenses. WPACs also contract with Environment to deliver products such as "state of the watershed" reports. Environment has not monitored and enforced these grants and contracts closely enough. At the 2008–2009 year end, WPACs did not submit on time or with sufficient detail the reconciliations that document how grants were spent. Environment also paid contract invoices at the year end even though the WPAC had not submitted the required deliverables. These practices violate financial management guidelines and raise the question whether Environment will achieve its water management goals on schedule.

Integration not yet an issue in day-to-day water supply decisions

During our audit testing, we found that government initiatives such as the *Land Use Framework*, *Sustainable Resource and Environmental Management*, and *Water Management Framework for the Industrial Heartland* do not yet affect day-to-day water supply systems and decisions. These initiatives are still at the conceptual or initial stages. When we follow-up this audit we may be able to examine how these overlapping policy initiatives affect water supply decisions.

Audit objectives and scope

Our audit objective is to determine whether the Department of Environment's systems to manage Alberta's water supply are well designed and operate effectively. Given the number and complexity of the water supply businesses[3] at Environment, the audit focuses on the five areas described later in this section.

We restricted our scope to the Department of Environment. We did our work in late 2009 and early 2010. When choosing *Water Act* regulatory files for examination, we generally looked at the year from July 1, 2008 through June 30, 2009.

This report deals with the following five areas:

- Monitoring and reporting. The Department's Monitoring and Reporting Branch collects and maintains data about surface and ground water in the province. The data is key to understanding Alberta's water resources: their location, quantity, and quality.
- Partnerships. In *Water for Life*, the Alberta government commits to sharing responsibility with a network of partners. Environment relies on partners to help develop policy and deliver products that promote water supply management objectives.
- Capital management and planning. Environment owns and operates (or outsources the operation of) hundreds of dams, canals, and related structures. Much of the infrastructure is aging and requires capital upgrades and maintenance.
- *Water Act* regulatory activities. The audit examined compliance with a selection of legislative requirements from the following Parts of the *Act*:
    - Part 1: Consultation
    - Part 2: Planning and Environmental Assessment
    - Part 3: Right to Divert and Priority of Rights
    - Part 4: Approvals, Licences, Preliminary Certificates, Registrations
    - Part 5: Changes in Ownership, Transfer
    - Part 7: Remedial Measures
    - Part 8: Notice
    - Part 10: Inquiry and Enforcement Orders.

[3] Appendix A lists the businesses that we identified in the preliminary knowledge-of-business phase of our audit.

- Integration. The Alberta government has introduced initiatives such as *Water for Life*, *Land Use Framework*, *Sustainable Resource and Environmental Management*, and *Water Management Framework for the Industrial Heartland*. These initiatives have the potential to influence Environment's water supply decisions and activities. Through our audit testing, we will determine the extent to which these initiatives affect day-to-day water supply businesses at Environment.

Background

Two core areas from *Water for Life*

Water for Life, released in 2003, is the Government of Alberta's major policy statement for water matters. For example, *Water for Life* contains the goal "Safe, secure drinking water supply", a matter which we audited and reported in our *2005—2006 Annual Report*. The second goal of *Water for Life* is "Reliable, quality water supplies for a sustainable economy". This audit examines aspects of water supply management.

Monitoring and reporting

Water for Life lists "three core areas of focus". Our audit addresses two of those areas. Monitoring and reporting is fundamental to *Water for Life*'s knowledge and research "key direction". The November 2009 *Water for Life: Action Plan* commits to "enhanc[ing] the provincial water monitoring and evaluation program". We intended to highlight this core area by auditing the systems in Environment's Monitoring and Reporting Branch.

Partnerships

Partnerships are another core area in *Water for Life*. Environment's central Partnerships and Strategies Section coordinates with Environment's regional staff to help support its partners. Environment has committed to provide leadership, technical, and financial resources to its *Water for Life* partners. Again, we intended to highlight the importance of partnerships through this audit.

Water Act enables a regulatory regime as well as new water management tools

The *Water Act*, which came into force in 1999, provides the legislative foundation for water supply management in Alberta. The *Act* lays out a typical regulatory environment, where Albertans who need water must apply to the Department and receive formal authorization to proceed with their projects. The *Act* also provides the mandate for inspection, investigation, and remediation. Beyond the typical regulatory regime, the *Act* enables water supply management tools that did not exist under previous legislation such as a water allocation transfer market, water management plans, and water conservation objectives. While these tools have not yet been fully implemented, we kept these in mind as we audited because Environment's systems will need to support these tools.

Environment's dams and canals

Environment estimates the current replacement cost of its dams and canals at about $9 billion. Most of this infrastructure relates to irrigation projects and was acquired from the federal government or federal agencies over the years. More recently, Alberta has built its own structures, such as the Dickson Dam in the 1980s.

WMO's roles re dams and canals

Environment's Water Management Operations (WMO) group contains three units important to Environment's dam and canal assets. First, WMO staff operate dams and canals. They also perform routine inspections of the structures. Second, WMO's Infrastructure Support unit runs the information system that keeps track of Environment's assets and liaises with Transportation to build and maintain them. Treasury Board organizes cross-government funding for capital projects. Third, WMO contains the dam safety regulatory function. This audit examines how Environment monitors the condition of its infrastructure and plans for its maintenance.

Water Act approvals, licences, and TDLs

Since 1905, Alberta has allocated water rights. Since 1999, the *Water Act* has provided the regulatory foundation for withdrawals from surface or subsurface sources. The *Act* and its regulations lay out the rules for water approvals, licences, and temporary diversion licences. These are the main focus of our regulatory audit work. The legislation also provides for preliminary certificates, registrations, codes of practice, and other mechanisms; we did not examine these during the audit.

The *Act*'s authorization process

Individuals or entities that want to divert water must apply to Alberta Environment (and perhaps others[4] depending on the nature of the diversion) for the appropriate authorization. Applicants who intend to build structures that could alter water flow or levels need an approval from Environment. Applicants who intend to divert water need a licence that sets maximum withdrawal limits. If the water diversion lasts less than one year, the applicant may qualify for a temporary diversion licence.[5]

First-in-time, first-in-right principle

The water allocation system operates on the first-in-time, first-in-right (FITFIR) principle. This means the most senior licensee may take the full allocation permitted by his licence before the next-most-senior licensee takes any. When Alberta was sparsely developed, this may not have been controversial. But Alberta is no longer a frontier and the government has recognized the need to develop new tools for water management. While the *Water Act* maintains the FITFIR principle, the new water management tools mentioned earlier give Environment greater control.

[4] For instance, federal fisheries or navigable waters considerations may apply or provincial fish or wildlife concerns may need to be reviewed by Sustainable Resource Development.
[5] The *Water Act* is complicated; this is a high-level summary.

Government initiatives should integrate with *Water Act* processes

The *Water Act* predates government-wide initiatives such as *Water for Life* (2003), *Land Use Framework* (2008), and *Water Management Framework for the Industrial Heartland* (2007). But all these initiatives will influence water supply management in Alberta. Readers can find these documents on the government website. The initiatives emphasize an integrated approach; for example, the *Land Use Framework* promises "integration and co-ordination of provincial policies governing air, water and land"[6]. While readers can easily find documents describing these initiatives, they will find it harder to determine the impact of these initiatives on today's *Water Act* management. In the course of our testing, this audit will determine that impact.

Criteria and conclusions

Criteria for the audit are listed in Appendix B.

Many systems need re-engineering

The Department of Environment has systems to manage its water supply businesses. However, Environment needs to re-engineer many of its systems to meet current as well as future demand. Environment has begun this re-engineering. For example, Environment's "Management Plans" on pages 60 to 65 outline major re-engineering initiatives. Environment has also introduced new software to improve regulatory activities. For instance, the WATERS computer system will automate temporary diversion licence application processing just as the WURS system will automate water use reporting. But many of the processes we examined during this audit are inefficient or ineffective.

Major restructuring on monitoring and reporting and partnerships

For the monitoring and reporting and partnerships components, we did not collect detailed audit evidence on which to conclude whether the criteria in the appendix are met or not met. However, the "Management Plans" in the next section portray a restructuring of these businesses over the next few years. While we cannot conclude on the audit criteria, we can conclude that these developments bear watching. We will audit the new systems when they are implemented.

Capital planning in the Department

For the capital management and planning component, the criteria are generally met. Environment collects data about the condition of its dams and other assets in its information system, EIMS. Environment's annual capital planning process meets government-wide requirements.

Government-wide capital planning

Environment participates in the government-wide capital planning process. Annually, departments submit their capital projects for consideration. In that process, Environment's dam rehabilitation projects have not scored well against other infrastructure proposals. Understanding why will be one consideration as we follow up our 2007 audit, "Prioritizing and Managing Alberta's Infrastructure Needs", and report our results in October 2010.

[6] Alberta Government, *Land Use Framework*, p. 8.

Systems to administer the *Water Act* need to improve

For the *Water Act* regulatory component, the criteria are partially met. Environment processes applications, issues licences and approvals, and checks to see that individuals and entities comply with the *Act*. However many aspects of the systems we examined are out-of-date or no longer functioning as designed. There are three major issues. First, Environment needs to eliminate its application backlog. While the licences and approvals issued comply with legislation, the size and rate of growth of the backlog indicate inefficiencies in the system. Second, Environment's controls to ensure that water users abide by the conditions of their licences and approvals should be strengthened. Third, Environment needs to manage better its relationships with entities such as Ducks Unlimited Canada and the Watershed Planning and Advisory Committees.

Initiatives do not yet affect *Water Act* decisions

For the integration component, the criteria do not yet apply. Initiatives like *Water for Life*, *Land Use Framework*, *Sustainable Resource and Environmental Management*, and *Industrial Heartland* are still at the conceptual or initial stages. They do not yet influence the everyday water management decisions we audited at Environment at this time. By the time we follow-up this audit's findings, the situation may have evolved and integrated decisions may be auditable.

Management plans

1. Monitoring and reporting

Monitoring and reporting is key to decision making and tracking the impact of policy, decisions, and activities. It is also a core area for *Water for Life*. Environment has provided the following comments on its system redesign.

Background

The Minister of Environment is mandated with transitioning to a cumulative effects management approach, managing towards broad based environmental outcomes, rather than to mitigate environmental impacts on a project-by-project basis. As a result, the Government of Alberta's, and Alberta Environment's monitoring, evaluation and reporting processes and functions must respond accordingly.

Recognizing that the monitoring, evaluation and reporting function must move beyond the program by program, and the single media assessment of environmental condition, to an integrated outcome-focused knowledge and performance management system, Alberta Environment initiated development of an Integrated Monitoring Evaluation and Reporting Framework (IMERF). The IMERF project, initiated in March 2009, will set out the strategic approach to environmental monitoring, evaluation and reporting activities in Alberta.

The main goal of IMERF is to provide a vision and a path forward that defines principles, terms, processes and activities, as well as controls and practices to support and enable a sound environmental monitoring, evaluation and reporting system.

Water condition monitoring

Alberta Environment is currently involved in the monitoring of water conditions from both a water quantity and quality perspective. Alberta Environment's principle monitoring and reporting activities are listed below. They include Alberta Environment's internal monitoring and reporting program activities, as well as data from stakeholders, including other Alberta ministries, other governments, and industry:

- Monitoring water levels in rivers, lakes and streams
- Calculation of water flow
- Measurement of water levels in reservoirs
- Water quantity measurements associated with Total Maximum Daily Load
- Groundwater well levels and production of wells (industry wells provincial Groundwater Observation Well Network)
- Water Use Reporting and water diversion from Industry, municipal water infrastructure and irrigation districts
- Measurement of return flow from irrigation districts
- Precipitation and run-off measurements to support water supply data and information
- Monitoring of inter-jurisdictional and trans-boundary rivers and aquifers.

Water supply reporting

- State of Environment Report Water Quantity indicators (next report to be released Feb 2010)
- Water Supply Outlooks (several per year)
- Real-time data and flow forecasting in summer months
- Lower Athabasca Water Management Framework Real Time Water Supply
- Scientific Technical and Interpretive Reports
- Prairie Provinces Water Board Apportionment summaries
- Water Management Operations reports
- Water licences and allocation data

IMERF—evaluation of the current system

An evaluation of the current system was undertaken as part of the IMERF project. Three key areas were identified where improvements or changes could be considered:

- Environmental data and information processes require a more systematic cross-media approach in order to be efficient and effective across time and places. Process improvements are required from the planning stage to reporting accessibility.
- Monitoring and reporting programs, investment, and infrastructure must be better coordinated among Alberta Environment and its partners. In some cases, accountability and roles associated with monitoring, evaluation and reporting activities need to be clarified.

- Increased demand and public expectation for environmental monitoring and information requires a robust monitoring and reporting system to meet Albertans' needs. Scientific and water-related data must be more integrated and readily accessible to the public and stakeholders, in order to meet the demand.

Needs going into the future

It was identified that transitioning to a cumulative effects approach would also require an improved monitoring, evaluation and reporting system that includes:

- Improved coordination and planning across ministry and partner activities to increase the efficiency and effectiveness of monitoring and reporting activities and processes.
- A broad enterprise approach to data management and infrastructure to improve data accessibility, integrity, and appropriateness across media, time and place.
- A systematic approach to monitoring, evaluation and reporting activities that improves the ability to connect monitoring data and information to environmental management decisions and policy.
- Integrated monitoring and reporting activities that assist the department and the government in understanding the implications of management actions and assessing the performance of policy and management decisions.

IMERF—goals and potential implications for the Department and the government

Implementation of the IMERF enables a strategic approach to environmental monitoring and reporting activities in the province. The principle outcome in implementing the IMERF is to support a broader performance management system within the department and the Government of Alberta.

Alberta Environment understands the importance of the monitoring, evaluation and reporting function in the transition to a cumulative effects approach. Through the recommendations outlined in the IMERF, Alberta Environment is committed to undertaking significant changes in the monitoring systems of the department, and where appropriate, those of the Government of Alberta, to ensure Albertans have a robust system that provides the necessary monitoring, evaluation and reporting of environmental conditions.

The IMERF was completed and submitted to Alberta Environment's Executive Committee for approval at the beginning of January 2010. Decisions on the recommendations and actions set out in the IMERF have yet to be finalized. It is expected that actions to evolve the monitoring, evaluation and reporting system will be initiated later in 2010.

Given the proposed timeframe to begin implementation steps, Alberta Environment suggests the Office of the Auditor General consider a follow-up audit in the fiscal 2012–2013 period to enable a fuller implementation and transition to the new system that emerges.

2. Partnerships

Partnerships are a second core area for *Water for Life*. Environment has provided the following comments on its system redesign.

Background

The Minister of Environment currently carries a mandate to transition to a cumulative effects management approach. As a result, Alberta Environment is reviewing its work with key partners to support this transition.

The cumulative effects management approach relies on collaboration with others and *Water for Life—A Renewal* (2008) identified specific partnerships to play a key role in stewardship and watershed planning. One of these partnership types is Watershed Planning and Advisory Councils (WPACs).

Under the *Land-use Framework* (2008), regional plans are intended to establish broadly-based outcomes and facilitate integration across environmental media—land, air, water and biodiversity. These plans take direction from relevant Government of Alberta strategies and plans. Given that these regions align closely to the current watersheds, it is important that the work done by the WPACs informs the work done as part of the regional planning process.

Role and status of watershed planning and advisory councils

Watershed Planning and Advisory Councils are multi-stakeholder organizations that engage the provincial government, other governments, industry and other stakeholders in watershed assessment and watershed management planning. They also engage their members and local communities to provide feedback and advice to Alberta Environment on developing policy and watershed management issues. In doing so, they consider existing land and resource management planning processes and the needs of decision-making authorities, such as Alberta Environment. Through *Water for Life,* we have assisted the formation of these Councils and encourage them to engage sectors within their region to provide us with well-vetted assessments of their watershed and recommendations relative to improved watershed management.

Alberta currently has ten Watershed Planning and Advisory Councils and will be establishing the one remaining Council by 2012. They range in maturity both as organizations and in their progress and experience with watershed planning. Depending on their date of inception, some are developing their first business plans, others are assessing the condition of their watersheds and still others are developing watershed management plans. This development is guided by *Enabling Partnerships—A Framework in Support of Water for Life* (2005) and *A Provincially Consistent Approach to Building Watershed Planning and Advisory Councils (2005).*

These organizations take time to fully develop and contributing stakeholders have invested much time and effort working with Alberta Environment to develop shared knowledge and recommend actions to support *Water for Life*. These partnerships enable the Government of Alberta to leverage resources and expertise, allowing for significantly more detailed watershed planning, and building good working relationships with participating stakeholders, who play a key role in implementing the outcomes identified in the plans.

Needs going into the future

A Governance Framework—As part of a larger effort to design and implement a system for managing cumulative impacts on the environment and to participate in the implementation of the *Land-use Framework*, Alberta Environment is in the process of reviewing the roles, responsibilities and capacity of its environmental partners to assess and understand the necessary functions and relationships for moving forward. These efforts will result in the development of a Governance Framework depicting governance arrangements within a cumulative effects management system and *the Land-use Framework*.

This Governance Framework is expected to be complete by March 2011. This timing aligns with the current work in developing the elements of a new cumulative effects management system, which is necessary to form the basis of updated governance arrangements.

Water for Life—The *Water for Life Action Plan* (2009) calls for the assessment of the effectiveness of the watershed planning system in achieving desired outcomes through the long-term. This assessment will take place as watershed plans are implemented for sufficient time to allow us to evaluate performance.

Several integrated projects are currently planned or underway to evaluate the work of Watershed Planning and Advisory Councils, and guide how their work informs existing and future Government of Alberta planning processes. These include:

- Framework for Watershed Management Planning (completion: 2010)
- Value Analysis and Resourcing Strategy of Watershed Planning and Advisory Councils to Support Future Cumulative Effects Management System Functions (completion: 2011)
- Watershed Management Plan Guide, Builder and Scheduler (completion: 2012)

Conclusions

The long-term role and value-added of Alberta Environment's partnerships with Watershed Planning and Advisory Councils will be clearly defined following the re-evaluation of the governance framework and the integration of Watershed Planning and Advisory Councils into Alberta's long-term planning processes. With the establishment of these Councils completed by 2012 and the supportive governance strategy fully implemented, it is recommended that an examination by the Office of the Auditor General in the 2012–2013 timeframe will be beneficial.

Findings and recommendations

1. Backlog of Water Act applications

Recommendation No. 4

We recommend that the Department of Environment minimize the backlog of outstanding applications for *Water Act* licences and approvals.

Background

Applications processed at six district offices

Environment reviews and authorizes *Water Act* applications regionally. The Department has six district offices around the province, each processing the *Water Act* applications from its district. A district manager or team lead organizes the application and approval activities in each office. The six districts are rolled into three regions, each with a director to oversee the work of the region. The regional directors report to an assistant deputy minister in Edmonton.

We did not look at *Water Act* codes of practice such as pipeline crossings. We focused on applications for *Water Act* approvals, licences, and temporary diversion licences (TDLs) as they were most numerous.

Criteria: the standards we used for our audit

Environment should ensure that *Water Act* applications are processed promptly. Summary information about applications on the Department's information system should be accurate, complete, and timely.

Our audit findings

A large and growing list of unprocessed applications

Environment's information system, EMS, keeps track of *Water Act* applications received and their status as they are processed. EMS lists 3,535 applications received but not processed as at June 30, 2009. This compares to 2,847 as at June 30, 2008. These are only the licence, approval, and TDL applications; there are other *Water Act* and related applications in addition to those numbers. This is significant because Environment processed only 1,560 approvals, licences, and TDLs in the same one year period.

Environment's initiatives to improve efficiency

A backlog is "an accumulation of uncompleted work".[7] Environment estimates that 25% of the 3,535 unprocessed applications are current, although that estimate has not been verified. The backlog, the combination of current and non-current applications, is increasing because Environment's application and authorization system cannot process the volume of applications on a timely basis. Environment recognizes this issue and is working to make the system more efficient. For example, TDLs form a large percentage of applications. Environment is in the process of implementing the automated WATERS system to improve TDL processing. Should WATERS succeed in making TDL processing more efficient, Environment may expand its use to licences and approvals. However these developments are years in the future.

Further efficiencies need to be realized

To eliminate the backlog, Environment should take further steps to make its system more efficient. For example, applicants themselves can slow the process by submitting incomplete applications or failing to respond to requests for further information. Environment's practice is to leave these applications open until the applicant chooses to respond. As a result, the application can remain on the backlog indefinitely. Environment should manage this portion of its business more aggressively, including cancelling applications from non-responsive applicants.

EMS data needs to be confirmed

EMS, the departmental information system, needs to provide accurate data so Environment can manage its application and authorization business. Environment should confirm the validity of EMS's backlog data. We tested a small sample of backlog items and found that five of fifteen outstanding applications had in fact been completed; EMS status had not been correctly updated. In a sixth file, the applicant had not responded to Environment's queries; that file awaits the next step which might be cancellation. With minimal work, Environment might be able to finalize many outstanding applications on the backlog.

Delayed processing can lead to non-compliance

During the audit, we examined 81 approvals and licences authorized in the one-year period ending June 30, 2009. Nineteen of those authorizations had been in the system for more than one year. Five of the 19 had been in process for six years or more. In some cases the applications related to expiring licences that required renewal. In these cases, the approval or licence holders no longer had valid authorizations because of Environment's delay in processing.

[7] *The Canadian Oxford Dictionary*, 1998.

Surges increase the backlog

For a variety of reasons, there have been historic surges in the number of *Water Act* applications coming to Environment. Surges contribute to an increasing backlog. Our audit testing confirmed that applications remain to be processed for each of the four circumstances we describe next:

The new *Water Act* in 1999

- The *Water Act* came into force in 1999, superseding the *Water Resources Act*. The changeover generated applications for scenarios such as traditional agricultural users or the conversion of interim licences to licences under the *Water Act*.

Expected basin closures spur applications

- In the early 2000s, it became clear that water basins in southern Alberta would be closed to new licences. This spurred a surge of applications in the Lethbridge and Calgary offices. While many of these applications may eventually be rejected because they were speculative in nature or do not meet standards, hundreds still remain to be processed.

Increased economic activity

- In the 2000s, Environment saw an increase in *Water Act* applications due to the growing Alberta economy and population. The more recent economic downturn has not produced an equivalent decline in applications.

Review identifies needed amendments

- Environment periodically reviews the status of issued licences and approvals. We describe those practices in Recommendation No. 6 on page 68. These reviews, whether by inspectors, approval writers, or other Environment employees, identify licences and approvals that need to be amended for the current holder to remain in good standing. This generates amendment applications that increase the backlog.

New surges may increase the backlog

We list these surges because they can be predictable. Two current circumstances may increase the backlog. First, under the *Water Act* all approvals and licences have an expiry date. As the *Act* is a little over a decade old and a 10-year expiry date was written into many approvals and licences, Environment can expect the first wave of renewal applications soon. Second, in southern Alberta, Environment expects the evolution of a water allocation transfer system. Transfers tend to be approval writer-intensive and may contribute to the backlog in the future.

Different approaches to addressing the backlog

Currently there is no province-wide initiative to deal with the backlog. Each region addresses its backlog differently. One district has a target for when it might be up-to-date; the team lead assigned two contract staff to the backlog and hopes to be current by April 2011. Some offices assign specific backlog files to approval writers in addition to their current processing duties. Other districts assign and process applications with no specific backlog strategy.

Implications and risks if recommendation not implemented

Should the backlog continue to grow, Environment's application processing may not be timely. This may affect the proposed projects; applicants may proceed without proper authorization or abandon proposed projects. Inaccurate

EMS data on licences and approvals may affect the efficiency or effectiveness of Environment's allocation, compliance, or transfer decisions. For example, Environment can best facilitate water allocation transfers with an efficient application system and an accurate inventory of issued approvals and licences.

2. Assessing compliance with the Water Act

Recommendation No. 5

We recommend that the Department of Environment ensure its controls provide adequate assurance that performance in the field by licence and approval holders as well as others complies with the *Water Act*.

Background

Approval writers at each of Environment's six district offices process and authorize *Water Act* applications. They also play a role in assessing whether performance in the field agrees with the approvals and licences they issue.

Certificates of completion

- Approvals often include a requirement for the proponent to return a signed certificate of completion to Environment when the works described in the approval are constructed. The certificate attests that the works comply with the approval conditions.

Water use reports

- For licences, approval writers usually require the holder to maintain water use reports that record volumes of water diverted. Sometimes, the licence requires the holder to submit the water use reports to the department on a regular basis.

Status reviews

- Occasionally the *Water Act* approval teams review the status of licences or approvals in their district. The purpose is to confirm that data in the paper files matches what actually exists in the field.

Inspectors and investigators physically examine sites in the field to ensure that activities comply with *Water Act* requirements. For example:

EPEA inspections

- While inspecting an *EPEA*[8] facility such as a water treatment plant, the *EPEA* inspector will review the water use reports.

Complaints and referrals

- Inspectors follow-up complaints from the public, referrals from colleagues in Environment, or concerns identified by other government departments and agencies.

Sweeps

- Inspectors identify an issue relevant to an area of the province and perform a sweep in the field. During the sweep, inspectors look for opportunities to educate or correct approval or licence holders as well as to identify non-compliance with *Water Act* authorizations.

[8] The *Environmental Protection and Enhancement Act* regulates municipal and industrial facilities. Many of these facilities need both *EPEA* and *Water Act* authorizations to operate.

Reviews

- Inspectors have used innovative techniques to identify non-compliance with Water *Act* authorizations. For example, they have used aerial photography to identify possible cases of non-compliance on the ground.

Variety of actions used

When approval writers or inspectors discover non-compliance[9] with the *Act* or issued authorizations, they have a variety of actions they can pursue. Actions range from operator education to formal warning letters through investigation and prosecution. Non-compliance can lead to amending or creating a new licence or approval.

New WURS system introduced

Environment has introduced a computerized Water Use Reporting System (WURS). Licence holders can access the system via the Internet and enter water use data directly. The department is currently amending licences to make WURS self-reporting mandatory.

Criteria: the standards we used for our audit

Environment should ensure that its *Water Act* activities:

- Comply with legislation and regulation;
- Identify, address and resolve risks that arise;
- Are timely and efficient.

Our audit findings

Some controls don't function; but reviews detect non-compliance

Environment invests considerable effort to review *Water Act* applications and issue authorizations. Once the approval or licence is issued, less attention is focused on ensuring that activities in the field comply with authorized conditions. Some of the controls described in the "Background" do not operate as designed, yet reviews or sweeps identify cases of non-compliance.

To strengthen its risk-focussed approach to ensuring compliance with legislation, Environment can re-engineer its controls to provide cost-effective assurance that individuals and entities comply with *Water Act* requirements.

Approval writers

Certificates of completion not followed up and now not required in one district

The majority of certificates of completion are not completed and returned by the approval holder.[10] Approval writers should follow-up this non-compliance but have neither a system to flag non-compliance nor the time to pursue the approval holders. Since the certificate requirement often results in the approval

[9] Within the term "non-compliance" we include all licence and approval holders' departures from *Water Act* requirements, from administrative matters such as failing to update licence or approval status to performance violations such as building unauthorized structures or withdrawing too much water.

[10] We examined 12 approval files in which the certificate should have been returned. Only six of those certificates had been returned. The remaining 6 approvals were in non-compliance; none were followed up by Environment.

holders' non-compliance, one district office no longer includes the certificate as a condition in its authorized approvals.

Water use reports not submitted

Historically, relatively few licences required water use reporting to Environment by licence holders. But for those that did, we observed high levels of non-compliance in submitting these reports in a timely manner.[11] Again, with the system as currently designed, approval writers do not have the tools to identify missing or erroneous water use reports. Often only an unrelated renewal, amendment, or inspection alerts Environment to this non-compliance.

WURS should expect significant non-compliance

When amending licences to include mandatory WURS reporting, Environment should expect a significant level of non-compliance, either through not reporting, reporting inaccurate data, or reporting non-compliance with the conditions of the licence. Environment does not have a system to identify and follow-up cases of non-compliance, although licence holders are increasingly using WURS.

Reviews identify non-compliance

Over a period of years, the Lethbridge office reviewed over 900 licences and approvals to confirm that data in their paper files is correct. The objective was to prepare for occasions when this data might be needed, such as during water shortages or when water allocation transfers become more numerous. The review identified 200 licences to be amended and nine to be cancelled. Confirmation of data by approval teams improves information system accuracy and rectifies non-compliance.

Inspectors and investigators

Inspections lead to remedial actions

Environment has assigned about 17 inspectors and investigators to *Water Act* matters. Their work produces numerous findings. For example, they performed about 575 individual inspections in 2008–2009. This activity resulted in 16 warning letters and 48 investigations. Environment's Environmental Management division publishes a quarterly online summary of its enforcement actions.[12]

Sweeps and reviews identify possible cases of non-compliance

When inspectors and investigators undertake sweeps, they identify potential non-compliance. For example, a sweep of 33 golf courses in northwest Alberta identified 19 deficiencies for remediation. Reviews also identify possible cases of non-compliance. In one exercise, an inspector reviewed satellite images of a drainage area in east central Alberta. He identified over 500 man-made modifications that might be non-compliant; these modifications did not have corresponding approvals on file. Environment is following up these findings.

[11] We examined 12 licence files that required the submission of water use reports to Environment. Only six of those licence holders complied on a timely basis.

[12] See the Environment website: http://environment.alberta.ca/2705.html.

A re-engineered cost-beneficial network of controls will improve Environment's assurance that approval and licence holders comply with the *Water Act* and their issued authorizations.

Implications and risks if recommendation not implemented

Without adequate monitoring of activities in the field, Environment cannot assess the level of non-compliance with its *Water Act* authorizations. Non-compliance jeopardizes the effective management of the water resource. Non-compliance also jeopardizes initiatives such as water allocation transfers because Environment cannot transfer a licence until its non-compliance issues are rectified.

3. Wetland compensation

Recommendation No. 6

We recommend that the Department of Environment formalize its wetland compensation relationships and control procedures.

Background

Wetland compensation required when applicants destroy wetland

Environment requires *Water Act* applicants who destroy wetlands[13] in the course of their project to compensate by restoring wetlands nearby. In this way, Environment preserves the benefits of wetlands for Alberta on a net basis. In most cases, the applicant will not do the restoration work themselves; they pay a third party to restore wetlands on their behalf. Beginning in 2005, Ducks Unlimited Canada (DUC) has done most of that restoration work in Alberta. Environment requires proof of payment to DUC before processing the *Water Act* application.

Ducks Unlimited is Alberta's "wetland restoration agency"

In February 2007, Environment released a revised "Provincial Wetland Restoration/Compensation Guide."[14] It mentions that DUC is the only wetland restoration agency (WRA) in Alberta. A WRA "restor[es] drained wetlands to near natural conditions". The Guide outlines how to classify wetlands, calculate compensation ratios, and control the relationships between Environment, the WRA, and the applicant.

[13] Wetland is "land saturated with water long enough to promote wetland or aquatic processes". It includes permanent, seasonal, and temporary features such as ponds, sloughs, and bogs.
[14] Available online at: http://environment.alberta.ca/documents/Provincial_Wetland_Restoration_Compensation_Guide_Feb_2007.pdf

Criteria: the standards we used for our audit

Environment should ensure that its partnerships are efficient and effective. There should be clear, enforceable agreements between the parties. Environment should periodically monitor the progress of its partners, including prompt year-end reporting.

Our audit findings

Controls not in place at Environment

Environment applies wetland compensation across the province.[15] However Environment has not implemented control measures to ensure that monies paid for this activity are spent appropriately. This includes upfront agreements as well as monitoring to ensure that reclamation work is adequate.

No agreement between Environment and DUC

Environment has not signed an agreement with DUC for this compensation activity. Environment worked with DUC to create the Guide but the Guide, released under the authorship of Environment and the Alberta NAWMP Partnership,[16] is not an agreement. As money is changing hands under the conditions of the Guide, a written agreement would make the parties legally responsible and accountable for defined activities.

Environment and DUC do not follow all directions in the Guide

Environment does not apply several of the processes described in the Guide. For example, the Guide suggests calculating compensation based on several factors; area of wetlands lost and distance to the replacement wetland are key to the calculation. The Guide uses "a minimum replacement ratio[17] of 3:1" and a "maximum rate of compensation [of] 10:1". In practice, the distance factor is not applied. In the compensation files we examined, 3:1 was the maximum and lower ratios are accepted. This indicates the need to update the Guide periodically.

Environment does not monitor DUC's activities

Environment has not implemented controls to manage the Guide's activities. We were not able to find anyone at Environment responsible for monitoring the financial and operational actions of DUC. In March 2009, DUC submitted a summary of work from 2005 through early 2009; this information should have been submitted annually. No one at Environment has reviewed this report or reconciled it to Environment's records. As well, Environment has not verified that DUC's work in the field meets acceptable standards. We are not saying that

[15] Environment is in the process of preparing a new wetland policy for Alberta. The Alberta Water Council has provided its input to the process; see the AWC's website: www.albertawatercouncil.ca/Projects/WetlandPolicy/tabid/103/Default.aspx.
[16] The Alberta section of the North American Waterfowl Management Plan is a group of government departments and non-government organizations that includes both Alberta Environment and DUC.
[17] As "it is almost impossible to fully replicate the complexity of a natural wetland ecosystem, … it is a generally accepted practice that a greater area (hectares) of restored wetland habitat … be required as compensation for a smaller area of destroyed natural wetland". ("Provincial Wetland Restoration/Compensation Guide", p. 7)

DUC have done anything wrong; we are saying that Environment does not have systems to ensure that DUC is doing what it should.

Restoration work is backed up

DUC began receiving wetland compensation funding in 2005; it is one of their largest revenue sources. Since then, DUC has not been able to spend all of the funding promptly. From 2005 through the end of January 2009, DUC has received $4.2 million from applicants, but has an outstanding balance of $1.7 million for work yet to be completed. We understand these balances have increased over the past year. Environment should monitor to ensure these funds can and will be spent on appropriate projects within reasonable timelines.

City of Calgary also has a wetlands compensation policy

Since the Guide's release, the City of Calgary has established its own wetlands policy and compensation guidelines. Should a *Water Act* application relate to a site within Calgary, both the City and Environment's wetland compensation practices would apply. Environment accepts Calgary's program as appropriate compensation, even though the City's program follows different guidelines. For example, Calgary accepts a 1:1 replacement ratio and man-made wetlands in its programs; Environment would not accept these practices elsewhere in the province. Environment has not documented why these differing standards are acceptable.

Implications and risks if recommendation not implemented

Without controls such as agreements and annual review processes in place, Environment cannot ensure that funding is used for its intended purposes. Without stronger management of its relationship, Environment may not receive the services it expects on a timely basis. This may impact the government's ability to achieve its wetlands objectives.

4. WPAC grants and contracts

Recommendation No. 7

We recommend that the Department of Environment strengthen its control of grants and contracts with Watershed Planning and Advisory Councils.

Background

Ten WPACs in Alberta

Water for Life introduced Watershed Planning and Advisory Councils (WPACs). There are now ten in Alberta. Their role is to advise the Minister and to prepare State of the Watershed Reports and Integrated Watershed Management Plans.

Annual grants to WPACs for core services

Environment provides each WPAC with an annual grant for core services. Early in the fiscal year, each WPAC and Environment signs an agreement defining basic services. WPACs receive the money early in the fiscal year. As per the

agreement, WPACs must sign off by the June 30th following the fiscal year end declaring they spent the grant on allowable purposes. For the 2008–2009 year end, Environment requested grant-specific reconciliations from each WPAC to support this process. Unspent money should be returned to the province.

Contracts for specific projects managed by WPACs

Environment also funds WPACs for specific projects. Environment contracts annually with WPACs to provide defined products or services. The WPAC generally acts as an intermediary, hiring and paying a contractor to do the work, then invoicing Environment for reimbursement. Each contract is structured to have a fiscal year-end deliverable against which Environment pays. Therefore, Environment pays most WPAC invoices close to March 31 each year.

Two of Environment's regional staff are associated with each WPAC. One staff member sits on the WPAC board; the other (from the other district in the region) is Environment's grant and contract manager.

Criteria: the standards we used for our audit

Environment should ensure that its partnerships are efficient and effective. There should be clear, enforceable grant agreements and contracts. Environment should periodically monitor the progress of its partners, including timely year-end reporting.

Our audit findings

We focused on the 2008–2009 processes

We examined the 2008–2009 grants and contracts for two WPACs. We also reviewed Environment's processes to plan and control the 2009–2010 and 2010–2011 grant and contract process.

No WPAC submitted year end sign-offs on schedule

For the annual grant process, the two WPACs and Environment signed the annual 2008–2009 agreements; the WPACs received $625,000. At the 2008–2009 year end, two problems arose.

- Neither WPAC signed off on schedule; one submitted its material in January 2010, nine months late. We understand that none of the ten WPACs submitted its year-end paperwork on time.
- Neither WPAC prepared the grant-specific reconciliations requested by Environment. From the limited information available from general-purpose financial statements, Environment calculated that one WPAC did not spend all of its core grant funding. According to the agreement, the WPAC should have returned the unspent $82,000. However, Environment amended the agreement to reduce the WPAC's 2011–2012 grant by that amount.

Environment paid for contracts

The two WPACs had eight contracts between them, totalling $525,000. All

although deliverables not received

were signed and effective November 2008 with March 2009 deliverables. One contract was cancelled during the year. The WPACs invoiced the remaining seven before the year end and Environment paid all seven. However for four of these contracts, Environment had not received key deliverables. We cannot quantify the extent of overpayment because Environment did not place a dollar value on every deliverable. However, one contract did value its four deliverables separately, one of which was a final report valued at $23,000. At March 31, 2009, the WPAC submitted a six page draft of the final report on the basis of which Environment paid the $23,000. Environment received the final report (consisting of 74 pages) in October 2009.

There are four issues with the WPAC contracts we examined:

Contracts signed late in the year

- Contracting with the WPACs takes place halfway through the fiscal year. This late start in the year limits the WPACs' ability to hire consultants and prepare their deliverables on time.

Multi-year projects

- Environment can strengthen its management of WPAC projects. For example, contracts should include clear definitions of deliverables, including delivery dates and a value for individual deliverables. Percentage-of-completion contracting would also support the work flow better.

Legislative compliance

- Environment employees violated government guidelines by signing off invoices for payment before deliverables had been received.

Ensuring timely, quality results

- Environment should ensure that it achieves its *Water for Life* objectives efficiently and effectively through these contracts. If WPAC partnerships cannot deliver quality results on schedule, Environment should consider alternatives.

Environment's systems design is improving

Environment's systems to plan and monitor WPACs' grants and contracts evolve each year. The systems designed for 2010–2011 provide the basis for sound control, including a province-wide review process to prioritize contracts and adjust funding as the year progresses. Environment needs to implement these systems to ensure it achieves its goals.

Implications and risks if recommendation not implemented

Without effective controls in place for WPAC grants and contracts, Environment cannot ensure that its funding has been used for its intended purposes. Without stronger management of these partnerships, Environment may not receive the goods or services that it expects on a timely basis. This may impact the government's ability to achieve its *Water for Life* goals.

Appendix A—Environment's Water Supply Businesses

During our preliminary knowledge of business phase of this audit, we identified the following Environment "businesses" that influence water supply management. This list may not be complete and other reviewers might organize their lists differently, but it demonstrates the variety and complexity of activities related to water supply.

Business	Description
Policy development	Environment formed the Water Policy Branch in late 2007; it includes 30 employees. Major projects related to water supply include the water allocation system (including transfers) and wetlands policy. The Branch also handles drinking water policy.
Monitoring and reporting water resources	The Monitoring and Reporting Branch covers air and water programs, and both EPEA and Water Act data. Water staff numbers about 40 for monitoring and about 15 for data management. The surface water technical team runs three networks: • Hydrometric (partnered with Water Survey of Canada; 400 stations); • Meteorological (110 stations); • Snow surveys. The surface water quality program has two parts: long-term river/lake stations; data sondes for portable chemical analysis. The Groundwater Observation Well Network (GOWN) contains 400 wells of which only 200 currently provide data.
Application and approval processes	Environment's six district offices write approvals and licenses. This is a typical application and approval regulatory business. There are mechanisms to ensure consistency across Alberta (e.g. a standard clauses committee, managers' monthly conference calls, etc.).
Field inspection	For *Water Act* licences and approvals, inspectors at the district offices inspect in the field. Inspectors also review WA water use reports when doing EPEA inspections. While much of the work is complaint driven, inspectors also do sweeps of areas looking for non-compliance.
Investigation and enforcement	Environment has investigators to deal with potential enforcement situations for both EPEA and *Water Act* matters. The Auditor General examined this process in his Drinking Water audit.
Dam safety regulation	Group of nine engineers and others who regulate Alberta's dams and waterworks, public and private. One technician audits small dams on a 10 year cycle. Large dams need a third party audit every five years; submitted audits are checked and progress monitored by Dam Safety staff.
Operation of Env-owned dams and canals	Environment owns and operates 200 structures, especially for irrigation in southern Alberta. Water Management Operations (WMO) runs them. Decisions by these operators strongly influence water flows in the southern watersheds.
Capital planning and maintenance	WMO's Regional Operations collect information about capital status and needs. Seven WMO employees in Water Projects Management in Edmonton are the central group who connect with Transportation and the government-wide capital planning process.
Water research	The Alberta Water Research Institute began in 2007 with $30 million from Alberta Ingenuity Fund.
Oil Sands Environmental Management Branch	This is a dedicated group to deal with the oil sands area; "a microcosm of the Department in one branch" as it was described to us. Water management processes developed there, if successful, could be rolled out to the Department as a whole.

Business	Description
River Forecast Section	Ten engineers and other professionals forecast river levels across the province; six more work in hazard management.
ASERT and emergency response	To deal with environmental emergencies, ASERT (Alberta Support and Emergency Response Team) prepares, communicates, and coordinates with others in and outside of the Alberta government. In this context, they work on flood preparation and response in consort with River Forecast, WMO, etc.
Transboundary agreements and monitoring	A group of four Environment employees look at policy (not operational) requirements resulting from transboundary agreements. Bilateral agreements need to be created for northern rivers. A current challenge from Montana (through the International Joint Commission) must be managed. Groundwater issues with Saskatchewan need to be addressed.
Water for Life (W4L) planning, monitoring, and reporting	Other government initiatives have an impact on water (e.g. urban development, hydro power, oil sands, etc.). Environment and GOA initiatives such as SREM, LUF, and others have strong water impacts. To help coordinate, Environment has intra- departmental, inter-departmental, and deputy-level committees. A group of five Environment employees is responsible for tracking *W4L* initiatives and providing secretariat services to the *W4L* committees listed earlier.
Partnerships	*Water for Life* lists three partner types: the Alberta Water Council, WPACs, and Watershed Stewardship Groups. A team of six Environment employees coordinate contracts and activities.
Departmental planning, budgeting, reporting	The usual processes in departments. Originally the *W4L* group (see earlier box) controlled a \$10–15 million annual budget for *W4L*. In the last two years or so, that budget amount was re-allocated to programs within Environment.
Data management	Numerous information systems are in use. EMS is a legacy system in which *Water Act* approval and licence activities are recorded. Monitoring and Reporting uses New Leaf, to be replaced by WISKI. WMO facility operators want to increase the use of SCADA; WMO also uses EIMS. Many other systems have been implemented for the businesses listed above. Public can access data through the Water Information Centre or the Alberta Water Portal.

Appendix B—Audit Criteria

Monitoring and reporting

Systems in Environment's Monitoring and Reporting Branch should ensure that:

- the essential data needs of users are addressed
- data collection is complete, accurate, and up-to-date
- data is available to users.

Partnerships

Environment should:

- monitor and oversee activities in the field
- ensure that partnerships are adequately resourced
- provide scientific information, tools, and programs as needed
- represent the Alberta government's interests to partners and provide leadership.

Capital planning

Environment's systems should provide:

- complete, accurate, and timely information about WMO's capital inventory and its condition
- scientifically based analysis and recommendations for capital additions and renovations
- outputs to meet government-wide Treasury Board capital planning requirements.

Water Act regulatory

Environment should ensure that its *Water Act* regulatory activities:

- comply with legislation and regulation
- identify, address, and resolve risks that arise
- are timely and efficient.

Integration

Decisions made by Environment on *Water Act* matters should take into account the policy initiatives outlined in documents such as *Water for Life*, *Land Use Framework*, and the *Water Management Framework for the Industrial Heartland and Capital Region*.

ATB—New Banking System Implementation

Summary

Replacement of banking and accounting systems

Alberta Treasury Branches installed the major components of its current banking and accounting systems in the mid-1980s. ATB plans to replace the current systems with SAP[1] banking and accounting systems. The project, known as Core, will transform ATB's banking system, financial reporting system, and internet and telephone banking applications. ATB also plans to re-engineer the majority of its business processes to take advantage of SAP's functionality.

In its business case for the Core project,[2] ATB defined its scope as:

- Core banking transformation—everything the current banking system does; functionality that the current banking system should provide, such as registered income funds and registered education savings plans; cash management services; wire transfers and payments; reporting and analytics to reduce operational risks
- corporate accounting transformation—replacing the existing general ledger, accounts payable, fixed assets and financial reporting systems
- business process transformation—transforming business processes to improve operational efficiencies
- channel transformation—transforming existing online, automated banking machine, telephone and customers contact centre processes

ATB started the Core project because:

Replacing aging technology

- ATB's aging technology platforms, complex computing environments and cumbersome processes limit its ability to grow and continue providing quality financial services to Albertans.

Reducing operational risk

- If it continues to operate in this manner, ATB faces major risks of frequent and extended service disruption and being unable to comply with an increasingly rigorous regulatory environment.

What we examined

Section 19(2)(d) of the *Auditor General Act* requires us to report on "accounting systems and management control systems, including those systems designed to ensure economy and efficiency, … [that] were not in existence, were inadequate or had not been complied with." At ATB, we observed inadequate project

[1] SAP is a company that provides business software products and services.
[2] Alberta Treasury Branches, *Core Transformation Initiative Business Case*, February 2008

governance[3] and management[4] in ATB's Core project, which have caused significant project delays and escalating costs.

We are reporting the following findings now, before ATB's Core project is finished, because there are lessons here for other Alberta public sector organizations that are considering large information technology projects.

Our audit covered activities on ATB's Core project up to January 15, 2010.

Why this is important to Albertans

ATB is replacing its aging banking and financial systems with a new SAP solution.[5] By re-engineering its main business processes of lending and deposit taking, ATB expects to:

- reduce its reputational and operational risks of frequent and extended service disruptions to its banking systems
- provide better, more efficient and effective services and products to customers and staff

Budgeted cost was $160 million

ATB's Core project is a significant capital investment by ATB. Originally budgeted at $160 million, Core is now expected to be completed at a cost of between $285 million and $315 million and be delivered April 1, 2011.

What we found

Governance and project management ineffective

ATB had governance and project management processes in place for the Core project. However, these processes were not effective for this large and complex project. ATB has identified that its existing processes were ineffective and is now taking steps to remediate them. However, the root causes of increased costs and delay should have been identified and dealt with much earlier in the project.

The Core project's functional design phase was to have been completed by January 2009, but has not yet been completed. An initial functional design phase confirms the business requirements to be included in the system, before designing the system. The key outputs of this process are system blueprints, which are validated by the business representatives on the project and then used to build the system. It is clear that when this important milestone was not met, difficult questions should have been asked of the project team by the project's oversight groups, its Strategic Steering Committee and ATB's Board of Directors.

[3] Governance includes the processes and responsibilities for ownership and oversight of the project, including initiating it, ensuring it meets the ongoing needs of the organization, accepting its results and ensuring its operational implementation within the organization.
[4] Project management is the application of knowledge, skills and techniques to meet a project's objective and requirements. It includes project initiation, planning, execution, control and termination.
[5] ATB selected SAP's banking platform and SAP's corporate accounting system as the information technology solution for ATB's core banking and corporate accounting transformations.

Lessons for others in the Alberta public sector

1. The complete nature and scope of an information technology project should be defined and approved before it gets started.
2. Project managers should have the appropriate project management skills for their project's complexity. This will not guarantee success; however, it will increase the likelihood that the project will be delivered on time and on budget.
3. The project management team should be able to continually demonstrate that the project is on time, on budget and that it will deliver the desired functionality. Or they must be able to explain why the project is off track and how they plan to bring the project back on track.
4. To provide effective project oversight, boards of directors should receive suitable and sufficient information from the project team to monitor the project's performance.

Findings and recommendations

Delays and cost increases have been significant

The Core project is significantly over budget and behind schedule. ATB's Core project governance processes were inadequate; management did not identify or resolve the key issues that caused the significant delays and cost increases. A primary cause has been unsatisfactory project management.

ATB misjudged risks, complexities and work required

We found that ATB management significantly misjudged the following:

- risks associated with being one of the first financial institutions in North America to implement the SAP solution
- the work required to customize the SAP solution for the North American banking market place
- complexities to successfully implement the Core project, and the skills and resources required to manage it

Project scope and business decisions not finished

As of December 2009, ATB had spent $145 million on the Core project. However, the project scope and significant business process decisions had not been finalized. Significant project change requests remained outstanding. The project design continues to evolve and ATB has not yet finished the design validation.

As part of the functional design phase (or blueprint phase), ATB identified 278 business processes that must be documented and validated by the line of business representatives on the project. As of December 2009, only 89 of the business processes had been completed and approved. There had also been 400 project change requests up to December 2009. As of January 2010, there were still 85 change requests that had not been resolved.

ATB hired two major vendors; SAP and Accenture,[6] to assist ATB implement the Core project. ATB needed to carefully manage such a relationship between the three parties to ensure that there was no abdication of responsibility through the diffusion of responsibility.

Contracts with vendors did not share project risks

ATB's contractual arrangements with SAP and Accenture did not set fixed limits on time and materials to be invoiced. The contractual arrangements did not include incentives or penalties that would have shared the project's risks amongst the three parties.

Performance reporting can be improved

Management's performance reports to ATB's Board of Directors have not been sufficiently detailed to allow for meaningful comparisons of the actual project results to the original project plan. In particular, the matching of actual and budgeted project costs to predefined project outputs has not been clear.

Project management
Recommendation No. 8

We recommend that Alberta Treasury Branches improve the management of its Core project by:

- **resolving pending business decisions, dealing with remaining change requests, and locking down the project's scope so that the project's design phase can be completed**
- **developing a new project plan with a realistic schedule and budget to complete the project**

Project management
Recommendation No. 9

We recommend that Alberta Treasury Branches examine its existing project management controls and clearly identify, and put in place, the new controls necessary to minimize the risk that the project will not be completed within the revised timelines and budget or will not deliver the expected functionality.

Project governance
Recommendation No. 10

We recommend that Alberta Treasury Branches conduct reviews of the Core project at clearly identified checkpoints within the revised project plan to ensure the deliverables are accepted by the Core project's Strategic Steering Committee and there is clear agreement for the project to continue.

[6] Accenture is a management consulting, technology and outsourcing company.

Performance reporting

Recommendation No. 11

To improve monitoring and oversight of the Core project, we recommend that Alberta Treasury Branches' management provide the Board of Directors with more information on:

- **project performance in relation to the revised schedule and budget**
- **stage of completion of significant project deliverables (percent complete and percent of budget consumed)**
- **explanations for variances between actual results and the revised project plan, and the actions taken to deal with the causes**

The Office of the Auditor General has followed up with ATB management on the steps being taken to deal with our findings. The steps include:

- formally locking down the project scope,
- reviewing and amending the project plan,
- developing a detailed schedule for completion, and
- reviewing and significantly strengthening the project management structure and reporting process.

We intend to follow up implementation of our recommendations and report publicly in subsequent reports.

Implications and risks if recommendations not implemented

Without good project governance and management, ATB's Core project may not:

- achieve the expected operational efficiencies, costs savings and additional revenues that ATB expected
- deliver the business transformation that meets the current and future business needs of ATB and its customers

The project will also be at risk of experiencing further delays and cost increases.

Project history

2006—ATB created a project team to investigate and report on available core banking solutions. ATB met with each ATB line of business, to determine current and future requirements for their areas. ATB issued a request for information to a number of vendors. Five international vendors passed the test criteria.

January 2007—ATB management proposed to replace its banking platform at a cost between \$80 million and \$100 million. This cost estimate was for the banking transformation and did not include the corporate accounting, business process and channel transformations which ATB subsequently added to the scope of the Core project. In May 2007, ATB issued a request for proposal to replace its banking

platform. That July, ATB issued a request for proposal for a banking integrator to provide program management, data migration and software integration services.

September 2007—The Core Transformation Initiative Strategic Steering Committee, consisting of ATB senior executives and chaired by the CEO, was established to oversee the project. The role of the steering committee is to provide overall corporate governance and oversight and to maintain ATB's vision of the project and ensure appropriate decisions are made to facilitate the successful delivery of the project. ATB short-listed two vendors for further consideration to supply ATB's new banking platform.

January 2008—ATB began exclusive contract negotiations with SAP to supply ATB's Core banking platform.

February 2008—ATB management prepared and presented the Core project's business case to the Board of Directors, estimating the costs to complete the project at $150 million. Management estimated in the business case the probable benefits of the project, over five years, at $140 million. Management recommended that ATB proceed with its Core project as presented in the business case. The Board of Directors approved the project with a total cost not to exceed $150 million, with the condition that management complete Phase 0.[7]

The business case stated the project's Phase 0 would mitigate the risks of:
- the requirements being incomplete or not fully validated
- escalating costs

The February 2008 business case assumed the project would be completed by April 1, 2010, and listed the following benefits that ATB expected to realize annually starting in fiscal 2013(two years after completion):

Benefit area within ATB	Annual cost savings ($ million)	Annual new revenues ($ million)	Total annual benefits ($ million)
Corporate Financial Services	–	8	8
Personal and Business Financial Services	7	15	22
Information technology	8		8
Total	**15**	**23**	**38**

[7] Phase 0 of the Core project was an initiative undertaken by ATB management to complete a thorough analysis of ATB's requirements and a proof of concept on SAP's technology. Management stated the key considerations of Phase 0 were the gaps between SAP's out-of-the-box functionality and the amount of customization required, a detailed scope of the Core project, funding required to complete the project, an implementation timeline and a final decision on the project's viability.

ATB's Core project charter identified the following project milestones and timetables:

Phase	Description	Target Dates	Status at the time of our review in January 2010
0	Phase 0	September 2008	Completed
1	Project scope completed	October 2008	Not yet complete
2	Future roadmap defined	October 2008	Not yet complete
3	Functional design (blueprints) complete	January 2009	Not yet complete
4	Development complete	July 2009	Not yet complete
5	Data conversion and system testing	September—December 2009	Not yet complete
6	Implementation "go-live" date	April 2010	Unknown

ATB selected Accenture as the Core banking integrator for its expertise in business transformation and its experience in large-scale systems implementations. Accenture implemented the initial project management office. ATB entered into contracts with SAP and Accenture.

April 2008—The Core project officially started, with the expectation that the project would be completed by April 2010.

May 2008—ATB expressed to Accenture that it was not satisfied with the project's program management capabilities.

July 2008—ATB hired a professional services firm to review the project's quality and project management capabilities and its governance structure.

September 2008—ATB completed Phase 0 and re-estimated the total Core project costs to be $160 million. Management also reported to the Board of Directors that an in-depth analysis of the SAP solution identified gaps between North American banking and the SAP solution. ATB's Board approved the Core transformation initiative at a total cost of $160 million.

October 2008—The professional services firm reported that the project management office was not operating at an acceptable level and that improvements needed to be made to the governance structure. ATB had Accenture change its project management team.

December 2008—ATB hired the same professional services firm to conduct a follow-up review of the project management problems identified in its October 2008

report. The professional services firm found that, although improvements were made, there were still several unresolved concerns within the project management office.

February 2009—Management reported to the Audit Committee that not all blueprint documents required at the end of the functional design phase were completed and that there would be some work needed in February and early March to complete the blueprints. Management stated the work remaining, although critical to ensure quality, should not negatively affect the next key date for the end of the development (or build) phase, which was to be July 2009.

May 2009—Management reported to the Audit Committee that they remained confident in their ability to deliver the project in the spring of 2010 but that a potential overrun in costs of $10 million (to a total cost of $170 million) was very real. Management also reported that some aspects of the functional design phase remained outstanding in May.

August 2009—Management reported to the Audit Committee that the build phase, originally scheduled to be completed in July 2009, was approaching completion, but the go-live date of April 1, 2010 was not finalized. Management requested $30 million of additional funding to complete the project because of an expected four- to six-week delay in the delivery date. The Board of Directors approved the additional $30 million funding request, which increased the project budget to $190 million.

September 2009—ATB CEO told staff that the Core project's planned go-live date of April 2010 would not be possible.

November 2009—At ATB's Audit Committee meeting, management reported a go-live date cannot occur before the fall of 2010 and that further additional costs to complete the project could range from $40 million to $60 million. However, no additional funding request was made at this time because management required additional time to analyze the project to develop a realistic estimate of the future cost and time requirements.

December 2009—ATB management reported to the Board of Directors that they estimated the timing of the go-live date could range from November 2010 to March 2011, with a $285 million to $315 million total cost.

Oversight of Financial Institutions

Summary

What we examined

Our audit objectives were to:

- assess whether the Department of Finance and Enterprise has clearly defined its expectations for Alberta Treasury Branches and has processes to monitor whether the expectations are met
- assess whether the Department has effective systems in place to fulfill its responsibilities to monitor the safety and soundness[1] of ATB, Credit Union Central Alberta Limited (AB Central), and six provincially incorporated trust corporations (PTCs) that do not take deposits

This audit covered activities at the Department between March 2008 and December 2009. The Department's supervisory program started in March 2008 and is still developing. We examined the program at this time to provide useful and timely recommendations as the Department implements its supervisory processes.

Why this is important to Albertans

Expectations for ATB

ATB is a public agency

As a public agency, ATB is accountable to the Minister of Finance and Enterprise. Albertans should be able to assess if ATB is meeting the Government of Alberta's (GoA) expectations. The Department should be appropriately managing GoA's risks and rewards at ATB.

Regulatory Branch

Supervision is necessary

The Department's supervision of provincially regulated financial institutions is necessary to determine whether they are in sound financial condition and complying with legislation and supervisory requirements. In our opinion, an effective provincial supervisory program should exist to monitor whether the regulated entities are appropriately managing risks.

[1] For purposes of this audit, we take "safe and sound" to mean that entities comply with legislative requirements, maintain adequate capital and liquidity and follow good business practices to protect customer's deposits and assets from loss.

Financial guarantee is significant risk

GoA, through the *Alberta Treasury Branches Act*[2] and the *Credit Union Act*,[3] ultimately guarantees the full value of deposits held at ATB[4] and Alberta credit unions.[5] GoA's financial guarantee is a significant financial risk if these entities are not operated in a safe and sound manner.

Under Alberta's *Credit Union Act*, AB Central is the central bank and liquidity provider for credit unions. As such, it is exposed to liquidity, credit and market risks. If AB Central is not operated in a safe and sound manner, the stability of the credit union system could be negatively impacted and GoA's risks under the deposit guarantee increase.

Although the six provincially incorporated trust companies do not take deposits, they hold individual Albertans' assets in trust. Therefore, they must have processes in place to manage and safeguard those assets.

What we found

Expectations for ATB

Business objectives not clearly defined in MOU

The Department has not clearly defined the business objectives within the *Memorandum of Understanding (MOU)*[6] that it expects ATB to achieve, such as a definition of "a fair return." Therefore, it cannot demonstrate that ATB meets GoA's expectations within the *MOU* and that the Ministry's 2009–2012 Business Plan[7] strategy was achieved.

Regulatory Branch

Supervisory program is new

Before 2009, no formal provincial supervisory program existed for ATB, AB Central or PTCs. The Department identified that a provincial supervisory program was needed because ATB had grown and become a more complex organization. In 2009, the Department developed a reasonable regulatory and supervisory approach to monitor the safety and soundness of the regulated entities. However, the Department has not implemented many components of the approach.

---

2 R.S.A. 2000, c.A-37
3 R.S.A. 2000, c.C-32
4 Per section 14(1) of the *Alberta Treasury Branches Act*
5 Per sections 152(1) and 152(9) of the *Credit Union Act*
6 http://www.atb.com/Dev/aboutatb/documents/MOU168340.pdf
7 Strategy 8.1: http://www.finance.alberta.ca/publications/budget/budget2009/finance.pdf

Opportunities to improve exist

While we acknowledge the supervisory program started in March 2008 and progress has been made implementing some components of the supervisory approach, there are opportunities for improvement as the supervisory program develops further. The Department has not:

- developed a comprehensive implementation plan for its regulatory and supervisory approach, so it is not clear how or when the Department will meet its regulatory objectives of ensuring regulated entities operate in a safe and sound manner
- completed risk assessments or evaluated the quality of the regulated entities' risk management practices
- reviewed the guidelines issued by Canada's Office of the Superintendent of Financial Institutions (OSFI) to identify which guidelines should apply to Alberta's regulated entities

The Department's processes for ensuring regulated entities remediate identified legislative non-compliance matters can be strengthened.

Regulation of ATB

We also considered whether the Department can effectively regulate and supervise ATB, because GoA is also ATB's owner. Federally licensed financial institutions are subject to supervision by an independent regulatory authority, the OSFI. Strict adherence to OSFI's federal supervisory model at ATB will not be achievable because of GoA's dual role of owner and regulator.

Department should monitor risks at ATB

Even though ATB is not independent of GoA, the Department should nevertheless have processes in place to monitor and manage GoA's risk exposures from ATB. In our opinion, it is appropriate for the Department to use financial institution regulatory techniques[8] for ATB to manage GoA's ownership risks. However, the Department should identify which OSFI supervisory requirements cannot be applied at ATB and clearly document whether GoA accepts the risks that those supervisory requirements were intended to mitigate or whether appropriate compensating controls exist.

What needs to be done

Expectations for ATB

Need to clarify business objectives in MOU

The Department needs to clarify its business objectives for ATB, within the MOU, in relation to the level of risk the Department expects ATB to take.

[8] For purposes of this report, we have defined regulatory techniques as oversight practices, similar to those followed by Canada's Office of the Superintendent of Financial Institutions, to ensure the safety and soundness of financial institutions.

Regulatory Branch

Implementation plan needed

The Department must fully implement its regulatory and supervisory processes to meet its objective of ensuring provincially regulated entities are operated in a safe and sound manner. To improve its implementation, the Department should develop an implementation plan that clearly identifies significant activities, timelines, individual responsibilities and the resources required.

For the Department's Regulatory Branch to be effective at ATB, it needs to provide unbiased information on ATB's risk to the Department and the Minister, who will use this information to consider whether the level of risk at ATB is appropriate for the owner's objectives.

Risk assessments needed

The Department also needs to:

- complete risk assessments and evaluate the quality of risk management practices at provincially regulated entities
- strengthen its processes to ensure identified legislative non-compliance matters are remediated
- identify which OSFI supervisory rules cannot be applied to ATB (because of GoA's dual role of owner and regulator) and assess how the risks that those supervisory rules were intended to mitigate are being managed
- review the guidelines issued by OSFI to identify which ones should apply to provincially regulated entities. Then clearly communicate the results of the review to the regulated entities and develop processes to monitor compliance with the guidelines.

Background

1. Financial Institutions Regulatory Branch

Branch was created in March 2008

The Department created the Financial Institution Regulatory Branch in March 2008. The Regulatory Branch is accountable to the Alberta Superintendent of Financial Institutions, within the Department. The Regulatory Branch's mandate is to regulate and supervise the following entities:

- ATB
- AB Central
- six provincially incorporated trust companies

Branch's objective is safety and soundness

The Regulatory Branch's objective is to ensure that regulated entities are operated in a safe and sound manner. The Regulatory Branch's strategy to achieve this objective is to hold provincially regulated entities to similar regulatory and supervisory standards as other Canadian financial institutions.

Why did the Department create the Regulatory Branch?
Before the Regulatory Branch's creation, the Department's regulation and supervision of ATB, AB Central and PTCs was informal and performed by the Department's Financial Institutions Policy Branch. The Department gave us the following reasons for the change in approach and the creation of the Regulatory Branch:

- the financial risk to GoA through the deposit guarantee program is significant
- the new regulatory program will provide the Department an assessment of the level of risk being undertaken by ATB
- ATB is likely the only deposit taking financial institution in Canada of its size not actively regulated
- all federally licensed Canadian banks and Alberta credit unions are regulated

2. Financial Institution Policy Branch

The Department's Financial Institution Policy Branch reports to the Alberta Superintendent of Financial Institutions. The Policy Branch supports GoA's legislative framework for the regulated entities. It is also responsible for maintaining the MOUs with ATB and the Credit Union Deposit Guarantee Corporation (CUDGC).

3. Regulated entities and the Credit Union Deposit Guarantee Corporation

Alberta Treasury Branches

GoA's deposit guarantee at ATB is significant

ATB was established in 1938 as the Province of Alberta Treasury Branches and has been a provincial Crown corporation since 1997. As a public agency, ATB is accountable to the Minister of Finance and Enterprise. ATB's business powers and limitations are set out in the *Alberta Treasury Branches Act* and the *Alberta Treasury Branches Regulation*. ATB's repayment of deposit principal and interest is guaranteed by GoA. The Department reported in its March 31, 2009, financial statements that it guarantees ATB deposits of $23.8 billion.

Credit Unions, Credit Union Central Alberta Limited and the Credit Union Deposit Guarantee Corporation

The *Credit Union Act* establishes the legislative framework within which Alberta credit unions, CUDGC and AB Central operate.

CUDGC's role

CUDGC is a public agency that administers significant aspects of the *Credit Union Act* on behalf of the Minister. CUDGC guarantees the repayment of all deposit principal and interest by Alberta credit unions. GoA ensures CUDGC's obligations are met.

CUDGC maintains a deposit guarantee fund and provides oversight to credit unions to minimize the risk of claims against the fund. The Regulatory Branch has a responsibility to monitor CUDGC to ensure it fulfills its mandate. The deposit guarantee fund was $125 million at December 31, 2008, or 0.83% of total credit union deposits, of $15.1 billion. CUDGC's target level for the fund is 1% of aggregate credit unions deposits with a minimum acceptable threshold of 0.8%. The guarantee of any deposits beyond the $125 million maintained in the deposit guarantee fund is a guarantee of the government.

AB Central's role

AB Central is owned by Alberta's credit unions and operates as a cooperative with total assets in excess of $2.0 billion at December 31, 2008. Its purpose includes:

- serving as the central banking facility and liquidity provider to Alberta's credit unions—Alberta credit unions are required to maintain a minimum level of deposits with AB Central.[9]
- delivering AB Centralized support services to Alberta credit unions, such as information technology solutions and support for payment and settlement operations
- acting as a trade association on behalf of the Alberta credit union system

Although CUDGC provides oversight to Alberta credit unions, it has no legislative responsibility to provide oversight to AB Central. By establishing the Regulatory Branch, the Department overcame a gap in the regulatory system for credit unions, because no previous formal provincial regulatory program existed for AB Central.

Provincially incorporated trust corporations

Provincially incorporated trust companies operate under the *Loan and Trust Corporations Act*[10] and consist of two types:

- full service trust companies that are allowed to offer fiduciary (holding in trust) and deposit-taking services
- special purpose trust companies that are limited to offering fiduciary services only

PTCs do not take deposits but do offer trustee services

All six PTCs are special purpose trust companies that are not registered to provide deposit-taking services, but do offer trustee services to Albertans. They hold assets, in trust or under administration, of approximately $1.3 billion. The six PTCs are required by provincial legislation to individually hold capital in

[9] Per page 16 of *Credit Union Central Alberta Limited's 2008 Annual Report*: AB Central's bylaws require Alberta credit unions to maintain a minimum of 1% of their assets as share capital with AB Central. Credit unions are also required to maintain liquidity deposits at AB Central such that their total liquidity deposits and share capital held are no less than 9% of the credit union's liabilities

[10] R.S.A 2000, c.L-20

excess of $2 million.[11] All six PTCs reported capital in excess of the minimum capital requirements in their most recent annual audited financial statements.

4. Relationships between the Department, and ATB and the Credit Union Deposit Guarantee Corporation

Relationship between Department and ATB

GoA's expectations of ATB are established in a *MOU* and include expectations that ATB:

- must be operationally independent of the government
- must operate on sound financial institution and business principles with the objective of earning a fair return
- customers must be predominantly Alberta residents and corporations incorporated and headquartered in Alberta—ATB must not provide services outside Alberta, except under limited circumstances.
- is to conduct itself in accordance with legal and statutory provisions applying to all Alberta Crown agents or ATB in particular—ATB is also to conduct itself in accordance with those policies of general application to agencies, boards and commissions specified by the Minister, and with management principles adopted by the government.

Minister and Department carry out multiple roles

The Department and the Minister carry out many different roles in relation to ATB:

- The Minister recommends to the Lieutenant Governor in Council appointment of the Board of Directors and is responsible for assessing the Board's effectiveness.
- The Department, on behalf of the Minister:
  - acts in an ownership capacity and provides public policy direction to ATB
  - guarantees the deposits of ATB and charges ATB a fee for the guarantee
  - approves ATB's borrowing limits and acts as an agent for ATB's borrowings
  - creates the regulatory framework and the regulatory program that ATB operates within

Relationship between Department and the Credit Union Deposit Guarantee Corporation

GoA's expectations of CUDGC are established in a *MOU* and include expectations that the Corporation will:

- continue to operate at arm's length from the government

[11] Per sections 189 and 35 of the *Loan and Trust Corporations Act*

- promote financially strong and stable Alberta credit unions with cost effective protection for depositors
- identify and mitigate risks facing CUDGC
- conduct itself in accordance with legal and statutory provisions applying to provincial corporations—CUDGC is also to conduct itself in accordance with those policies of general application to agencies, boards and commissions specified by the Minister, and with management principles adopted by the government.

Findings and recommendations

1. Improving accountability

Recommendation No. 12

We recommend that the Department of Finance and Enterprise clarify its business objectives for Alberta Treasury Branches, within their *Memorandum of Understanding*, in relation to the level of risk the Department expects Alberta Treasury Branches to take.

Background

Expectations are in MOU

GoA's expectations of ATB are stated in a *MOU* between the Minister of Finance and Enterprise and the ATB Board of Directors. An expectation in the *MOU* is that ATB operates on sound financial institution and business principles with the objective of earning a fair return. This expectation is also stated as a strategy within the Ministry's 2009–2012 business plan.

Criteria: the standards we used for our audit

The Department should have processes in place to assess if ATB is meeting GoA's expectations contained within the MOU.

Our audit findings

Expectation in *MOU* are not clear

The Department has not clearly defined within the *MOU* the business objectives that it expects ATB to achieve, because the Department has not defined a "fair return." A fair return could be interpreted to mean a commercial return or something different. The Department told us that a fair return is not a commercial return because ATB is expected to fulfill certain public policy objectives of GoA. We agree there are unique aspects to ATB's business because of GoA's ownership role. However, expectations within the *MOU* should be clear to ensure accountability for results.

Implications and risks if recommendation not implemented

Without clearly defined expectations, it is difficult for the Minister to hold ATB's Board of Directors and senior management accountable for their performance and for the Department to demonstrate to Albertans that expectations are met.

2. Implementation plan for regulatory and supervisory frameworks

Recommendation No. 13

We recommend that the Department of Finance and Enterprise develop an implementation plan for its approach to regulating and supervising regulated financial institutions.

Background

Frameworks set out regulatory and supervisory approach

The Department has developed frameworks that set out its approach to regulating and supervising ATB, AB Central, and PTCs. The Department wanted to ensure its approach is comparable to that used by Canada's OSFI for federally regulated financial institutions. This will help the Department achieve its objective of holding provincially regulated entities to similar regulatory and supervisory standards as other financial institutions. The Department told us that implementing the approach is a multi-year initiative.

Regulatory program's components

The Department's frameworks include the following seven key components, which state the Regulatory Branch will:

- implement a risk-based approach to supervise Alberta financial institutions, similar to OSFI's supervisory approach
- implement standards and guidelines in the Basel Committee on Banking Supervision's Basel 2 framework[12] that are appropriate to the size and nature of each entity's operations
- ensure each entity maintains a capital management program, including board-approved capital policies and practices and an annual capital plan with target capital ratios that are supported by adequate forecasting and reporting
- require regulated entities to complete an annual letter confirming that the entities comply with legislation, noting exceptions with full explanations for those exceptions
- ensure regulated entities comply with:
  - the five guidelines approved by the Minister of Finance and Enterprise and issued by Alberta's Superintendent of Financial Institutions

[12] http://www.bis.org/publ/bcbsca.htm

    - the guidelines issued by OSFI that are applicable to its regulated deposit-taking institutions
    - any and all industry recognized best practices
- complete monthly, quarterly and annual desktop reviews to maintain an ongoing awareness of the entity's financial condition
- conduct on-site examinations at the regulated entities throughout the year

Criteria: the standards we used for our audit

The Department should have an implementation plan for its regulatory and supervisory framework. The plan should include:

- goals and objectives to be achieved
- timelines, responsibilities and significant milestones
- the resources required and the expected costs
- expected results and benefits
- risks and mitigation strategies
- critical measures of performance

Our audit findings

Implementation plan

Implementation plan does not exist

The Department does not have an implementation plan for its regulatory and supervisory framework. A framework implementation plan is a crucial next step. The Department can use the plan to indicate how and when it will meet its objective of holding the regulated entities to similar regulatory and supervisory standards as other financial institutions.

Several framework components, such as the Basel 2 Report on Banking Supervision standards and guidelines,[13] are multiyear initiatives that will require significant work be undertaken by the regulated entities, with significant costs. The Department does not have a strategy or detailed implementation plans for these significant framework components, including timelines, detailed requirements, accountabilities and resources.

The completion of risk assessments is a critical step in implementing a risk-based approach. Therefore, we have made a separate recommendation for this component (see recommendation—page 100).

[13] http://www.bis.org/publ/bcbsca.htm

Progress on implementing regulatory and supervisory approach

Progress to date has focused on ATB

Since the Regulatory Branch's inception in March 2008, the Department has focused its regulatory and supervisory work on ATB because of its size and risks. We have summarize its progress at ATB up to December 2009 below:

Framework Component	ATB
1	In progress
2	X
3	X
4	Implemented
5	X
6	Implemented
7	In progress

Definitions:

X:	no significant progress on this component
In progress:	some of the processes have been put into place and sufficient evidence of planning by the Regulatory Branch exists to demonstrate the remaining processes will be implemented over the next year
Implemented:	a process is operational

The Department developed a desktop review process for AB Central and initiated a process to receive compliance letters from AB Central and PTCs.

Resource planning

Resource assessment not complete

The Department has not assessed the resources required to implement its regulatory and supervisory approach. This assessment will be an important part of the implementation plan. Currently, the Regulatory Branch does not have financial institution regulatory experience or the specialized skills needed to evaluate complex treasury, information technology and credit systems. However, regulatory experience can be developed as the Branch matures and evolves. This experience can also be obtained from outside experts. The Branch has relied heavily on outside consultants to develop its approach to regulating and supervising regulated entities, and to initiate the risk assessment and credit review processes at ATB.

Implications and risks if recommendation not implemented

The Department may not achieve its objective of holding the regulated entities to similar regulatory and supervisory standards as other federally regulated financial institutions.

3. Completion of risk assessments

Recommendation

We recommend that the Department of Finance and Enterprise complete risk assessments and evaluate the quality of the regulated entities' risk management practices.

Background

Risk-based approach will be used

The Department's approach to regulating and supervising financial institutions requires a risk-based supervision similar to OSFI's approach for federally regulated financial institutions. OSFI's supervisory framework[14] describes its approach to risk assessment and its supervisory processes.

The objective of a risk-based supervisory model is to:
- identify and evaluate risk within a financial institution
- assess the quality of the financial institution's risk management and control functions—OSFI identifies these as board oversight, senior management, risk management, internal audit, compliance and financial analysis
- perform a combination of on-site examinations and off-site monitoring based on the organization's size, complexity, risk profile and financial condition

Criteria: the standards we used for our audit

The Department should have a risk-based approach to supervisory activities that monitor the safety and soundness of provincially regulated financial institutions.

Our audit findings

Risk assessment not complete

The Department has not completed risk assessments or evaluated the quality of risk management practices at the regulated entities. It has also not developed annual risk-based supervisory plans. However, this was expected because the Regulatory Branch is in the early stages of developing its supervisory processes.

Risk assessment of ATB has started

In 2009, the Department started the risk assessment process at ATB, which it plans to complete by August 2010. The completion of risk assessments is necessary to demonstrate an understanding of the regulated entities businesses, develop risk-focused supervisory plans and effectively manage the Regulatory Branch's limited resources.

[14] http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=294

Implications and risks if recommendation not implemented

Without comprehensive risk assessments for the regulated entities, the Department may not have a complete understanding of risks and may fail to identify matters that create safety and soundness concerns.

4. Monitoring legislative compliance

Recommendation No. 14

We recommend that the Department of Finance and Enterprise strengthen its processes to ensure identified legislative non-compliance matters are remediated.

Background

Regulated entities annually confirm compliance

The Department's approach to regulating and supervising requires regulated entities to annually confirm compliance (or identify non-compliance) with:

- provincial legislation
- guidelines issued by Alberta's Superintendent and Canada's OSFI
- federal legislation, such as the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*

By June 2009, the Department had created confirmation letters to confirm the regulated entities' compliance with legislative requirements. Regulated entities must provide the confirmation letters to the Department. The approach requires the Regulatory Branch to validate the responses and review the supporting explanations for identified legislative non-compliance.

Criteria: the standards we used for our audit

The Department should have processes in place to:

- monitor regulated entities' compliance with legislation
- require explanations and remediation plans from regulated entities for any identified areas of legislative non-compliance
- follow-up on remediation efforts

Our audit findings

Monitoring regulated entities' compliance with legislation

Confirmation process started but not yet complete

In 2009, only ATB completed a confirmation letter. The Department provided the format for the confirmation letters to AB Central and some PTCs; however, the Department has not finalized timelines for AB Central and PTCs to complete the letters. The Department does not have a process to validate the responses received in the confirmation letters.

Require explanations and remediation plans for legislative non-compliance

ATB's confirmation letter included explanations and remediation plans for the identified areas of legislative non-compliance.

Follow-up on remediation efforts

Follow-up on remediation efforts needed

The Department will need to develop a monitoring process to periodically follow-up on the regulated entities' remediation plans to ensure legislative non-compliance matters are promptly corrected.

Implications and risks if recommendation not implemented

The Department will not identify instances of legislative non-compliance and ensure they are remediated without adequate monitoring, verification and follow-up processes. Prolonged non-compliance could result in financial loss and increased reputational risk for the regulated entities.

5. Improving transparency

Recommendation

We recommend that the Department of Finance and Enterprise:

- **clearly identify which guidelines and supervisory rules are applicable for the regulated entities**
- **develop processes to monitor compliance with the guidelines**
- **assess how risks are mitigated for those guidelines and supervisory rules that are not applicable**

Background

Regulatory and supervisory approach modeled after OSFI

The Department's Regulatory Branch has modelled its regulatory and supervisory approach after OSFI. OSFI supervises federally regulated financial institutions to determine whether they are in sound financial condition and complying with their governing law and supervisory requirements. OSFI is solvency focused and its model is built on the principal of independence, where the owner and regulator are not the same.

Criteria: the standards we used for our audit

The Department should have an effective and transparent supervisory framework for regulated entities.

Our audit findings

Regulatory and Supervisory Model for ATB

Strict adherence to OSFI approach not possible at ATB

As the owner and regulator of ATB are the same, strict adherence to an OSFI regulatory and supervisory model is not possible. The Department has not identified which OSFI supervisory rules do not apply to ATB, nor has it

documented how the risks those rules and guidelines were intended to mitigate are being managed. GoA, as the owner of ATB, must weigh the risks and rewards and can choose to accept or mitigate the risks; either way, the approach must be well understood and transparent.

The definition of eligible regulatory capital[15] is an example of where the rules are different. In 2009, the Minister amended ATB's definition of eligible regulatory capital[16] to include $600 million in notional capital,[17] and five-year mandatorily repayable deposit instruments, that are essentially five-year guaranteed investment certificates. These two items would not be considered eligible regulatory capital at federally regulated financial institutions.

Regulatory and supervisory approach for ATB and AB Central

Applicable guidelines need to be identified

The Department has communicated to ATB and AB Central that it expects them to comply with all applicable guidelines issued by OSFI. However, the Department has not completed a detailed review of the guidelines to specifically identify which of the approximately 25 OSFI guidelines are applicable. The Department has not developed a process to monitor the regulated entities' compliance with the guidelines.

Other good practices

CSA practices should be considered

The Department's supervisory approach did not consider other good practices such as guidance issued by the Canadian Securities Administrators.[18] While this guidance is applicable to publicly listed Canadian companies and not the provincially regulated entities, it does contain good governance and risk management practices that the Department should consider as its supervisory approach evolves.

Implications and risks if recommendation not implemented

If the Department chooses to apply different supervisory practices than those applied to federally regulated financial institutions, the risks resulting from those deviations should be well understood and transparent. If the Department expects regulated entities to comply with applicable guidelines, it must specifically identify which guidelines are applicable otherwise the risk that

[15] Regulatory capital is maintained to protect financial institutions from unexpected and severe losses. For the Department, the likelihood of financial support being provided to ATB under the deposit guarantee is reduced if ATB maintains minimum capital levels.

[16] In 2009, the Minister amended the *Alberta Treasury Branches Regulation* to move the capital adequacy requirements to a *Capital Requirements Guideline* (http://www.atb.com/Dev/aboutatb/documents/capital_requirements.pdf)

[17] Notional capital is a non-cash item whose purpose was to allow ATB to report at March 31, 2009, that it exceeded its minimum total regulatory capital requirement of 10%, as established by the Minister. No cash was transferred between the Department and ATB; this was simply a paper transaction.

[18] The Canadian Securities Administrators have three objectives: the protection of investors; fair, efficient and transparent markets; the reduction in systemic risk.

regulated entities will not meet the Department's expectations increases or regulated entities will spend resources trying to comply with non-applicable guidelines.

Land Titles Registration System

Summary

What we examined

We examined Service Alberta's systems to identify and mitigate the risk of fraudulent use of its land titles registration processes.

Property fraud has been a problem in Alberta and continues to be a risk to homeowners and lending institutions. A high-profile 2005 case in northern Alberta involved over 280 properties and approximately $30 million in alleged fraudulent mortgages financed by 22 lending institutions.

The most common property fraud is mortgage fraud. A typical mortgage fraud scenario is when a fraudster buys a low valued property and then "sells" it several times over a short period of time, between associates, for ever increasing values. No legitimate sales take place; each transaction is artificial and supported by documentation filed at Alberta Land Titles. The last "sale" is typically to a straw buyer,[1] in whose name a mortgage is obtained based on the inflated value of the property. The fraudster receives mortgage funds as vendor of the property. The lending institution is left with substantially more owing to them on a property than its real worth. The straw buyer then defaults on the mortgage and the lender experiences losses.

Mortgage fraud is successful because fraudsters are able to register non-legitimate transactions with Land Titles, thus providing the perception of authenticity to carry out their scheme. Recent legislative changes have strengthened the ability of Department staff to act on suspicious or unusual transactions or activities related to the land titles system. However, improvements to the way the Department operates with respect to land titles will further lessen the impact of mortgage fraud on Albertans.

Why this is important to Albertans

Without adequate systems to identify suspicious transactions, and mitigate the risk of fraudulent documents being registered, there is an increased risk that Alberta homeowners could become a victim of property fraud.

[1] This is an individual who has no financial or other interest in the property and is recruited and offered a nominal fee solely to allow their name and credit rating to be used to obtain a mortgage from an unsuspecting lender.

What we found

Lenders rely on Department products, but information from lenders that may help identify abuse of the Land Title system is not routinely shared with the Department. We found Department systems to complete land title transactions were generally well designed and operating as intended. The Department can, however, improve its fraud detection and deterrence activities by using computer based data-mining techniques. We identified specific patterns in the land titles data system that we concluded may indicate potential mortgage fraud activity, requiring follow-up and investigation by the Department's Special Investigation Unit.

What needs to be done

We recommend that the Department use specialized electronic tools to regularly examine all transactions in the existing system for patterns, which may be indicators of possible fraud. Analysis of these patterns will enable the Department to design and implement controls to lessen the probability of fraudulent transactions being processed. Investigation of suspicious transactions and providing timely information to key Department staff are controls that will contribute to an inhospitable environment for potential mortgage fraudsters. However, Department systems will not alone eliminate the risk of property fraud. Coordinated efforts of the Department, lenders and the police are needed to make any significant impact.

Audit objectives and scope

We evaluated the Department's systems to complete the registration of land titles. Our objective was to assess if there are adequate processes in place to identify and mitigate the risk of fraudulent use of the system.

We examined the current policy, procedures and practices for processing land title related service requests and for investigating questionable transactions. We interviewed Department staff and examined data from all land titles transactions in Alberta between April 1, 2008 and March 31, 2009.

Background

Public safety is one of the Government of Alberta's five priorities. Reducing fraud is considered an important step in making Alberta a safer place to live, work and raise a family.[2]

[2] Government of Alberta News Release March 2, 2007

How land titles are registered

The Department's Registries Services Division provides land titles services through Alberta Land Titles and Personal Properties Registry (Land Titles) under the Torrens System of land registration.

The Torrens System uses three guiding principles:[3]

- The Mirror Principle—The current certificate of title shows all existing interests registered against that property (all registered claims, ownership, mortgage, liens etc.).
- The Curtain Principle—A person does not have to examine the chain of title to determine how ownership of the land was obtained; the current certificate of title guarantees the seller is the bona fide owner.
- The Insurance Principle—The province guarantees the accuracy of the registration. If an individual loses interest in land due to error or fraud, they will receive compensation.

Consequently, Service Alberta maintains custody of and legal responsibility for the validity and security of all registered land title information.

Land Titles offices in Edmonton and Calgary provide registration services, including registration of mortgages and transfers of title, on a fee-for-service basis. These services are required when anyone wishes to purchase a home, farm or commercial property in Alberta.

The Department processes approximately 1 million document registration requests, 3.6 million title and document search requests, and 11,000 survey plan registrations annually. Currently, requests are processed within 24 to 48 hours, in the order they are received.[4]

Alberta Land Titles' Spatial Information System (SPIN 2) provides online search and downloading capability of registered survey plans, township images, survey control markers, soil capability information and titles for commercial and residential property. All Albertans can download relevant information, including scanned documents with signatures on them, for a fee.

Advisory Committee on mortgage fraud

The Government of Alberta established an Advisory Committee on Mortgage Fraud, in spring 2005. The committee was asked by the government to formulate strategies to address the growing incidence of mortgage fraud in Alberta.

[3] *Protections, Practice and the Project*, prepared for the Law Society of Manitoba by Susan Billington, Policy and Program Counsel, Law Society of Alberta, September 25, 2006.

[4] http://www.servicealberta.gov.ab.ca/pdf/lt/ALTA_2_Vision.pdf pg. 3, *Land Titles Business Vision*, March 2008

The committee developed nine strategies for addressing mortgage fraud:

- enforce liabilities and subsequent remedies to deter abuse and fraud
- promote industry regulation and enforcement
- execute good lending practices
- develop, adopt and communicate best practices in the various industry sectors
- share information, determine the problem and inform industry
- develop customer awareness programs
- understand privacy acts in order to share information and suggest reform
- amend the *Law of Property Act* to identify who can sue the covenant
- amend the *Land Titles Act* and associated regulations, and standardize the practices and policies of the Land Titles office

The strategies to promote awareness and change legislation have been implemented. However, strategies that require sharing information between lenders and other groups face significant obstacles.

The Advisory Committee's report acknowledges that many stakeholders will be required to act and that the impact of mortgage fraud is "as much a societal issue as a monetary one."

Legislative changes

In 2006, two new sections were added to the *Land Titles Act*.[5] Both strengthen the ability of Land Titles staff to prevent abuses of the land titles system, by giving them increased powers to:

- require satisfactory proof of identity of any person whose name appears on an instrument
- copy any form, or make a note of information contained in documentation and retain it—The copy or note does not constitute information contained in the register for the purpose of a search.
- refuse to register if for any reason it appears to the Registrar that the transaction may involve fraud
- refuse to register if a person fails or refuses to produce sufficient identification documents to establish their identity

Assurance fund

The province uses an assurance fund to compensate registrants should an error occur that deprives them of their right to their land. Applications are made through the Land Titles office and adjudicated on a case-by-case basis. If an applicant is successful in their complaint, they will generally receive correction of the error in title and compensation for reasonable expenses. Since April 2005, annual fund payouts have ranged between $4,000 and almost $700,000 a year.

[5] Sections 43.1 (1)–(3) Proof of identity and Section 50.1 (1) and (2) Refusal to register

Types of property fraud

Two well-known property fraud schemes are title fraud and mortgage fraud:

- Title fraud is committed through forged documents used to transfer a title. The fraudster typically re-sells the property or obtains a mortgage against it. The legitimate owner is unaware of the fraud until they receive notice from the lender that payment is due, or the purchaser attempts to take possession. Homeowners who have no existing liens or caveats on their property are most vulnerable to this scheme because no third party is required to be involved in the transfer. The legitimate owner has technically lost the title to their home and it will have an outstanding mortgage registered against it. Documented incidents of this type of fraud in Alberta have historically been low.
- Mortgage fraud is committed when the fraudster buys a marginally valued property and then "sells" or flips it several times amongst associates, for ever increasing values. Each sale artificially increases the value of the property and is supported by required documentation. The last "sale" is typically to a straw buyer,[6] in whose name a mortgage is obtained based on the inflated value of the property. This type of fraud has been identified in Alberta; it can involve organized crime and professionals, including lawyers, mortgage brokers, real estate brokers and appraisers.

A high-profile case in 2005 involved over 280 properties in Edmonton and Camrose and approximately $30 million in alleged fraudulent mortgages financed by 22 different lending institutions. Six individuals were charged by police, with over 237 criminal charges including fraud over $5,000, conspiracy to commit fraud, and committing an offence for the benefit of a criminal organization.

Costs of property fraud

It is difficult to determine the overall cost of property fraud in Alberta. Not all instances are reported. Confirming the associated costs for identity and title reinstatement, legal services, foreclosure proceedings and other social/personal impacts would be complex.

Current investigative activities

Service Alberta has designated one member of their special investigation unit to investigate unusual land title activities. This investigator follows-up on any complaints brought forward by Land Titles staff, property owners or other interested parties, and lays charges when appropriate.

The investigator's mandate is to look into suspected or alleged irregularities which may impact the Department or members of the public. This can include fraudulent

[6] This is an individual who has no financial or other interest in the property and is recruited and offered a nominal fee solely to allow their name and credit rating to be used to obtain a mortgage from an unsuspecting lender.

title transfers and the registration of fraudulent documents. In 2009, five *Criminal Code* charges were laid in three investigations for uttering forged documents to facilitate title transfer. These cases often involve related parties such as family members or business associates fraudulently transferring title from one to another.

Working alone, this investigator completes about 20 files a year and currently has 10 long-term investigations underway. He also spends time assisting law enforcement and supporting Department staff. The Special Investigative Unit is currently without data-mining capability.

Conclusions

We conclude that Service Alberta has a good system in place to process land title transactions, and can investigate matters that are brought to it via complaints. However, proactive systems to detect fraudulent activity can be improved.

Findings and recommendations

Analyzing land titles data

Recommendation

We recommend that the Department of Service Alberta improve its ability to detect fraudulent transactions and mitigate the risk of property fraud by:

- **conducting regular analysis of land title data for suspicious transactions**
- **using the results of data analysis to focus investigations and prosecutions**
- **providing information about suspicious activities to Department staff to assist them in the exercise of their new legislative authority**

Background

Land title transactions are processed by trained examiners who ensure that all declarations and details required by statute are included in transaction documentation, before registering them. Once registered on title, the transaction is legally binding and guaranteed accurate by the government.

Transactions include change of address for service, notice of security interest, builder's lien, discharge, utility right of way, caveats, mortgages and title transfers.

About 90% of the service requests come to the Edmonton and Calgary Land Title offices by mail. These registration requests and supporting documentation are primarily submitted by lawyers from around the province. Ten percent are submitted in person at the service counters in each city.

All requests for service are processed using a computer system developed in the 1990s.

Criteria: the standards we used for our audit

The systems that control the registration of land titles in Alberta should be well designed, controlled and operated, and should:

- ensure only bona fide transactions are processed
- detect, track and follow-up on suspected misuse
- clearly detail what actions registry division staff are expected to carry out if they suspect misuse of the system
- define compensation available to the public in the event of a fraudulent transaction

Our data-mining methodology

We obtained an electronic copy of all land titles transactions commissioned during the 2008–2009 year, and summarized this data into property groupings. We then conducted database searches to understand if an identification of properties meeting specific criteria would provide indicators of possible fraudulent activity for investigators and examiners.

We focused on properties with both title transfer and mortgage transactions. We then narrowed the test group to properties with three to seven events over the year. This rendered 13,626 transactions involving 4,254 properties. From this group, we selected the first 148 properties that exhibited indicators of possible fraudulent behaviour. Our criteria on this first pass were:

- multiple title transfers in a short time, or
- significant increases in property value, with new mortgages taken shortly after the increase, or
- the presence of individuals or law firms suspected of involvement with fraudulent property transactions

We examined the flagged properties using information from SPIN 2, online municipal property tax databases and the Alberta Corporate Registry, all of which are available to the public either for free or on a fee-for-service basis. We looked for:

- high ratio mortgages[7]
- individuals transferring or selling to themselves through corporations
- rapid increase in value followed by a new mortgage
- mortgage foreclosure shortly after a loan is funded

[7] Where the loan is for more than 75% of the property's value, insured by CMHC or other insurers and is required to be used as a primary residence.

- individuals with simultaneous multiple mortgages on different properties from different lenders
- most recent value of property on title certificate materially higher than municipal property assessment

Our audit findings

The computer system used to process all land titles transactions does not allow easy assembly of a property history. This limits staff ability to quickly assess if a transaction is reasonable or falls into a suspicious pattern. The system does allow a note to be attached to a property file to signal staff processing a related transaction to consider using their new legislative powers.

We identified 30 properties of interest and found:

- high ratio mortgages on properties whose values had been increased through subsequent transfers—In many cases the values used to secure these mortgages were $100,000 or more greater than the value stated on the municipal assessment.
- lenders valuing properties at less than title value used to secure a loan after they have foreclosed on the property, within months of initially funding the mortgage
- one individual with two high ratio mortgages, registered the same day, from different lenders, on different properties exhibiting rapid increases in value in a very short time period—Both mortgages were foreclosed within several months. The same lawyer was associated with both of these transactions.
- an individual who resold the same property to himself twice in eight months, increasing the value by $332,000 (152%), then mortgaged it for over $350,000
- a property value increase of $220,000 (50%) in three months, followed by a $500,000 second mortgage; another increase of $147,000 (78%) in the two weeks preceding a high-ratio mortgage registration—One property flipped for a $132,000 increase (70%) in one day. These three properties were all associated to one lawyer.

While each property we examined presents a unique timeline of events and value changes, they all exhibit the signature characteristics often present when property fraud occurs. If examined against specific criteria, the information gathered by Service Alberta can assist in identifying questionable transaction patterns. We provided the results of our examinations to the Department for their follow-up.

These patterns can be used to focus investigative efforts and allow the Department to provide information to staff that can help them apply professional judgment as they carry out their duties.

In summary, we were able to identify specific property transactions that contained sufficient fraud indicators to conclude further investigation was needed. These techniques can be repeated on a regular basis by Service Alberta, thus ensuring that their systems are not being used by people committing property fraud. Further, considering these identified patterns and other indicators of fraudulent behaviour, the Department can design controls to lessen the probability of fraudulent transactions being accepted into the system.

Implications and risks if recommendation not implemented

Without processes to mitigate and identify fraudulent use of Alberta Land Titles' systems, including cooperation between the government, legal, lending and real estate communities, there is an increased risk that Alberta homeowners could become a victim of property fraud.

Oversight of Peace Officers

Summary

What we examined

We examined the Department of Solicitor General and Public Security systems to conduct compliance audits of authorized employers of peace officers[1] under the *Peace Officer Act* (the *Act*),[2] other governing legislation and Peace Officer Program policy. This program is relatively new; it began in May 2007 and its oversight processes continue to evolve.

Why this is important to Albertans

Albertans need to know that the Department fulfills its oversight role and ensures that authorized employers and their peace officers provide an effective and appropriate level of public security within the framework of legislation and policy governing the Peace Officer Program.

What we found

Systems need improving

The Department's systems to ensure authorized employers of peace officers comply with legislation and Peace Officer Program policy are in need of improvement. We did not find cause for alarm that public safety is at risk. However, administrative systems could be improved.

Inefficient processes to monitor non-compliant employers

The Department has an inefficient system to monitor the status of an employer's compliance with its compliance audit report recommendations. In just over half of the compliance audits we examined, we found no documentation in Department files to show employers' compliance with Department recommendations.

Weaknesses in compliance audit processes

The Department uses an informal process to schedule compliance audits of authorized employers. Auditors' working papers did not adequately document the findings and recommendations set out in the associated audit reports. The Department's Policing Standards and Evaluation Manager approves the final audit report but does not review the documented audit evidence to ensure it supports a report's findings and recommendations.

[1] An authorized employer is an agency authorized under section 5(3) of the *Peace Officer Act* to employ or engage the services of a person defined in section 1(f) of the *Act* as a peace officer. This does not include RCMP or municipal police officers.
[2] S.A. 2006, c.P-3.5

Investigation files closed without required managerial approval

The Department assigns auditors to monitor employer investigations of complaints of alleged criminal or serious misconduct made against peace officers. The auditors also conclude on the appropriateness of an employer's disposition of the matter and, pursuant to Department policy, submit the file to their manager for approval and closure. We found that 86% of files we examined from 2008 and 2009 had not been submitted to the manager for approval before being closed. We also found 38% of the sample of closed investigation files we selected to audit were missing from Department files and staff could not locate them or explain where they were.

Incorrect information in databases

The Department requires employers to report incidents involving peace officers. Pertinent information about the incident is entered into spreadsheet databases which the Department uses to compile annual statistical summaries. We found inconsistent and incorrect information in these databases.

What needs to be done

We make three recommendations. The Department should:

- improve its processes to monitor outstanding recommendations made to employers
- use a risk-based approach to schedule future on-site audits and improve processes for conducting compliance audits
- improve monitoring of employers' investigations of complaints made against peace officers by following Department policy and best practices

Audit objectives and scope

The objectives of our audit were to determine if the Department has systems to ensure authorized employers of peace officers comply with legislation and Peace Officer Program policy by:

- conducting compliance audits of authorized employers and following up to ensure employers comply with audit report recommendations
- conducting any investigations as directed by the Director of Law Enforcement under authority of Sections 17 or 19 of the *Act*
- monitoring investigations that authorized employers are required to conduct under Sections 14 or 16 of the *Act*

We examined a sample of scheduled compliance audits of authorized employers conducted by the Department's Public Security Division auditors between May 2007 and May 2009. We reviewed the Division files on these employers. We also examined a sample of employer investigations conducted under Section 17 or 19 or monitored under Section 14 or 16 of the *Act* between May 2007 and May 2009.

Police forces and RCMP not examined

Our work did not include examining any Alberta municipal police forces or the Royal Canadian Mounted Police, or any of the work performed by police officers[3] through their duties as employees of these police agencies.

To perform the audit, we:
- interviewed Division staff
- assessed processes used to conduct audits and monitor employer investigations
- examined 27 compliance audits conducted between May 2007 and May 2009, including reviewing investigators' notes, the final audit report and any files maintained on employers
- reviewed audit reports and related files of an additional 25 authorized employers for documented evidence of employers' compliance with audit recommendations
- examined a sample of files associated to employer investigations monitored by Division auditors between May 2007 and April 2009

Background

Peace Officer is a unique category of law enforcement

Alberta Solicitor General and Public Security has overall authority for the Peace Officer Program.[4] Alberta Peace Officers can be employed only by an "authorized employer" as designated under the *Act*, and are subject to approval of their appointment by the Director of Law Enforcement. Authorized employers range from provincial and municipal government agencies and departments to post-secondary institutions and out-of-province police or government agencies.[5] Peace officers constitute a unique category of law enforcement in Alberta. They fulfill roles ranging from community safety enhancement to specific and specialized law enforcement needs and support. As of April 2009, there were 271 authorized employers and 3,149 authorized peace officer positions in Alberta.[6]

[3] The definition of a police officer is in Section 1(k) of the *Police Act*. A police officer's authority, duties and jurisdiction are set out in Section 38 of this *Act*. While police officers are considered to be peace officers under section 30 of the *Police Act*, the Public Security Peace Officer Program has no oversight role over them or any provisions of the *Police Act*.

[4] The Public Security Division, under the Assistant Deputy Minister Director of Law Enforcement, administers the Program. Its daily operations, including policies and guidelines, are the responsibility of the Policing Standards and Evaluation Manager.

[5] There are currently 14 authorized out-of-province police or government agencies, including the Ontario Provincial Police, Vancouver Police Department and the BC Attorney General Court Services Branch. Authorized employer status permits members of these agencies to lawfully carry firearms and conduct policing, security or enforcement services in Alberta relating to matters originating in these agencies' home jurisdictions.

[6] Alberta Solicitor General and Public Security data. This does not include 14 registered out-of-province police or government agencies and 162 authorized positions.

The Peace Officer Program replaced the Special Constable Program in May 2007. Legislation governing the program is found in the *Act, the Peace Officer Regulation* and the *Peace Officer (Ministerial) Regulation:*

- The *Act* contains the broad strategic directions under which the program operates. It sets out a framework for the key components of professionalism, accountability and standards for both employers and peace officers.
- The *Peace Officer Regulation*[7] deals with requirements such as which weapons peace officers may carry, how they obtain this authority, in what circumstances their use is to be reported, and associated employer responsibility.
- The *Peace Officer (Ministerial) Regulation*[8] deals with administrative areas such as the application process for obtaining employer authorizations, reporting requirements for peace officers, establishment of minimum standards for codes of conduct, record keeping systems and minimum uniform standards.

Policy manual available online

A policy and procedures manual, available publicly online, provides employers with details necessary to understand and follow requirements of the governing legislation.[9]

Four categories of Alberta Peace Officer

Alberta peace officers are designated into one of four categories, depending on the employer, duties and level of responsibilities. Each category has minimum education and training requirements. These categories are:

- Alberta Peace Officer Level 1, employed by the Alberta Solicitor General and Public Security Sheriff's Branch—Sheriffs enforce various federal and provincial statutes specific to the mandate of the unit they are assigned to. There are approximately 665 APO Level 1 peace officers.
- Alberta Peace Officer Level 2, employed by Government of Alberta ministries, commissions such as Alberta Gaming and Liquor Commission, and authorized regulatory bodies such as Alberta Motor Vehicle Industry Council—These peace officers' duties range from fraud investigations to inspections and compliance enforcement of provincial statutes. There are approximately 600 APO Level 2 peace officers.
- Community Peace Officer Level 1, employed by municipalities, counties and post-secondary institutions to fulfill a range of roles including enforcing designated provincial statutes, such as moving violations under the *Traffic Safety Act*—There are approximately 1,055 CPO Level 1 peace officers.
- Community Peace Officer Level 2, employed by municipalities and counties, but whose roles are more administrative in nature or have a narrow focus, such as front counter clerks at RCMP detachments, animal control officers or photo radar enforcement officers—There are approximately 825 CPO Level 2 peace officers.

[7] Alta. Reg. 291/2006
[8] Alta. Reg. 312/2006
[9] https://www.solgps.alberta.ca/programs_and_services/public_security/peace_officers/Publications/Peace%20Officer%20Manual.pdf

Division auditors ensure employers comply with legislation and program policy

Under the *Act*, the program's director or the manager, by delegation, has the authority to conduct inspections or investigations to ensure that authorized employers and their peace officers are complying with the requirements of the governing legislation and program policy. This function is carried out by Division auditors, who operate under the manager's direction. These auditors, who are experienced former police officers, conduct on-site inspections of an authorized employer's operations to ensure compliance with all legislated standards and program policy. Any identified deficiencies are reported and the employer must correct them within timeframes set out in the report. Authorized employers are audited at least once every three years.

Non-scheduled investigations may be conducted

The director may require the manager to conduct a non-scheduled investigation under Sections 17 or 19 of the *Act*. Section 17 covers concerns that an employer has either not investigated, or not satisfactorily investigated, a written public complaint against a peace officer, or where a peace officer failed to comply with his or her terms of appointment. Section 19 of the *Act* requires the director to investigate matters, or request a police service or other person conduct or take over an investigation, where a peace officer:

- allegedly used excessive force
- used an authorized weapon or equipment (either intentional or accidental)
- was involved in an incident in which a weapon was used by another person
- was involved in an incident causing serious injury or death to a person

Investigations of complaints against peace officers are monitored

The manager may also assign a Division auditor to monitor and conclude against an employer's investigation of a complaint against a peace officer under Sections 14 or 16 of the *Act*.[10] Governing legislation and program policy require the employer to notify the Division of these investigations, provide status updates every 45 days and report on its disposition of the matter. The Division refers to these matters as "reportables."

Employer authorization may be cancelled

If an employer fails to correct deficiencies identified from an audit, or does not adhere to legislative requirements and program policy, it may have its authorization suspended or cancelled. If this were to happen, the employer would be unable to employ peace officers until the authorization was reinstated.

[10] Section 14 of the *Act* refers to written complaints made against a peace officer. Section 16 refers to other instances where an employer becomes aware a peace officer has violated the terms of his appointment and is required to investigate the matter and notify the Director of its disposition.

Findings and recommendations

1. Follow-up of compliance audit report recommendations

Recommendation No. 15

We recommend that the Department of Solicitor General and Public Security improve its processes to monitor and ensure employers implement its compliance audit recommendations by:

- **developing, maintaining and monitoring a database of the implementation status of all audit recommendations**
- **requiring timely written confirmation of compliance from employers**
- **ensuring files on employers are properly maintained**
- **taking necessary and timely action against non-compliant employers**

Background

Report with recommendations sent to employer at end of audit

When a scheduled compliance audit is complete, the Division auditor prepares a report with significant findings and recommendations. This sets out audit evidence and actions the employer must take to comply with governing legislation and program policy.

Recommendations have different implementation dates

The report sets out milestone dates for recommendations to be implemented by. If the employer fails to meet these timelines, it could lose its authorization to employ peace officers. Depending on the specifics of a particular finding, the implementation date could be immediate or some time in the future. A report may contain a number of recommendations, each with different implementation dates. Employers are required to notify the Division in writing when recommendations have been implemented.

Criteria: the standards we used for our audit

There should be processes in place to ensure:

- timely implementation of recommendations
- effective resolution of non-compliance

Our audit findings

Monitoring of outstanding recommendations is weak

These criteria are not met. We found the Division's processes in the reporting of employer compliance audits were good. However, the Division does not effectively monitor the status of employer compliance with previously issued audit recommendations or follow-up with non-compliant employers.

In 2007 and 2008, the Division did not track the recommendations it made to employers. The Division does not know which employers have implemented recommendations made to them to be fully compliant with legislation and policy. In 2009, the Division started tracking outstanding recommendations.

Each time a recommendation was made to an employer, the proposed implementation date was entered as a task into an Outlook[11] calendar. If the employer did not respond by the proposed implementation date, the Division would in theory contact the employer to determine why. We found this system is not working.

Management advised us the Division is aware of this shortcoming and is taking steps to install and use IAPro,[12] a commercial software package with extensive case management and data tracking capabilities, which is currently used by a number of Canadian law enforcement agencies.

We examined 38 compliance audits and associated employer files from 2007 and 2008. Our purpose was to determine if employers had implemented compliance audit recommendations and if the Division had followed up with non-compliant employers. We found:

- Twelve compliance files had employer documentation confirming implementation of 61 recommendations.
- In five compliance files, employers reported that 13 of 25 recommendations had been implemented. We found no evidence in any employer files that the Division had followed up to determine why the remaining 12 recommendations were still outstanding.
- Twenty-one compliance files contained 75 recommendations with no documentation indicating whether recommendations had been implemented. We found follow-up correspondence from the Division in only six employer files. These letters had been sent in May and June of 2009.

We examined a sample of five compliance audit files the Division completed in 2009. We found:

- Two of the audits containing four recommendations had no employer documentation confirming the recommendations had been implemented.
- Two of the files had documentation showing the employers had implemented three of ten recommendations.
- One audit file showed full compliance by the employer. The employer documentation was received after the Division auditor sent a reminder letter to the employer.

No follow-up with non-compliant employers

We found the Division did not follow-up with the four non-compliant employers. The current Outlook-based system the Division uses to monitor the outstanding recommendations made to employers is inefficient.

---

[11] Microsoft Outlook, an e-mail and scheduling program.

[12] Manufactured by CI Technologies, IAPro is currently used by the Ontario Provincial Police, Toronto Police Service, Winnipeg Police Service, Edmonton Police Service, Calgary Police Service and Peel Regional Police.

Some outstanding recommendations could be of public concern

Public safety was not at risk, since most of the outstanding recommendations are administrative deficiencies of various legislative and Program policy requirements. These include areas such as weaknesses in exhibit handling procedures, poorly maintained personnel files and lack of supervisory approval of peace officers' investigative reports. However, some compliance audit recommendations deal with issues which could be of public concern, such as:

- peace officers carrying pepper spray or batons while not authorized to by their Peace Officer Appointment
- peace officers not properly storing pepper spray when off duty
- lack of an employer policy to deal with public complaints against peace officers or code of conduct issues

Implication and risks if recommendation not implemented

Without monitoring which employers have implemented audit recommendations by required milestone dates and following up with those which are non-compliant, the Division is tolerating non-compliance. The Division is not fully satisfying its mandate to protect the public interest by ensuring all authorized employers demonstrate compliance with recommendations made pursuant to governing legislation and program policy.

2. Processes to conduct compliance audits

Recommendation

We recommend that the Department of Solicitor General and Public Security:

- **use a risk-based approach in future audit cycles for selecting on-site employer compliance audits**
- **better document compliance audit files, including documenting audit findings, identifying auditors performing the work and demonstrating sufficient oversight**

Background

On-site inspections conducted by Division auditors

Part 3 of the *Act* allows for on-site inspection of authorized employers. Division auditors conduct on-site audits of authorized employers and their peace officers to ensure compliance with the governing legislation and Program policy. Program policy stipulates employers be inspected at least once every three years, or as directed by the program's director. The current three-year audit cycle began when the Peace Officer Program replaced the Special Constable Program in May 2007.

Standardized forms are used for compliance audits

Division auditors use internally developed standardized checklists and questionnaire forms for compliance audits. These forms include peace officer personnel files, employer questionnaire, peace officer interview and file system review. Most of these forms have a space provided for the completing auditor to sign and date them. Auditors are expected to prepare additional notes as needed for work done in areas not covered by these standardized forms. These working papers should detail the evidence found to support any findings and recommendations set out in the audit report.

The number of auditors assigned to conduct a compliance audit depends on the size of the employer being audited and the training requirements of newly hired Division auditors. The auditor writing the audit report is responsible for the retention and storage of all working papers associated to the audit.

Criteria: the standards we used for our audit

Processes to properly conduct a compliance audit should include steps to ensure:

- the selection and scheduling processes should be clearly defined and should include a process for setting priorities based on risk
- working papers document work done, who did it and any resulting findings
- any exceptions or deficiencies are fully identified and documented
- testing procedures, including sample selection, are clearly defined
- findings and conclusions are reviewed and approved by someone other than the auditor performing the work

Our audit findings

Informal scheduling by Division auditors

These criteria are partly met. The Division has a system for selecting and scheduling employer compliance audits, but currently lacks a formal process for identifying risk-based priorities. A spreadsheet lists employers the Division plans to audit within the current three-year cycle. It shows which employers have been audited, are scheduled to be audited or are yet to be audited. The manager does not assign audits; auditors choose which employer they wish to audit. The auditors then enter the planned audit dates into the spreadsheet once they have scheduled the audit with the employer.

Risk-based criteria presently not used to determine priority of audits

We were told by Division staff they do not conduct a risk assessment in determining the order in which employers should be audited. Since the program is new, their primary goal is to have all applicable employers audited by the end of the inaugural three-year audit cycle in mid-2010. Criteria such as number of peace officers employed, type of peace officers' duties, previous history of non-compliance with legislation or program policy, or number of reportable incidents involving peace officers are currently not considered in any

prioritization process. However, we were advised these criteria, together with the results from the initial employer audits, will be used for prioritizing the schedule of the next audit cycle.

No plans to audit Community Peace Officer Level 2 employers

At the time of our audit, there were 271 authorized employers, of which 194 were listed in the audit scheduling spreadsheet. We were told that some Community Peace Officer Level 2 employers were not listed in the spreadsheet. The Division does not plan to conduct on-site audits of these employers because their peace officers' duties are considered primarily administrative in nature. The Division is considering a self-assessment package for some Community Peace Officer Level 2 employers, but has not yet developed criteria or further details.

Report findings not always documented in auditors' notes

Audit reports were written in a timely manner after the conclusion of the fieldwork. These reports, using a standardized reporting format developed by the Division, were concise and easy to read. However, in the 27 audit files we examined, we found that auditors' notes and other working papers did not always document the findings and recommendations set out in the audit reports. Without this documentation, there is no independent way to verify or, if necessary, defend findings or recommendations set out in a report.

Insufficient documentation found in working papers

We examined 27 employer compliance audits in detail, which were conducted by Division auditors between May 2007 and April 2009. We reviewed their audit report, audit working papers and files maintained by the Division on the employer. We found:

- Fifteen of the 27 (56%) audits had two or more auditors involved.
- Working papers were not signed by the completing auditor in 16 of 27 (59%) audits and only some papers were signed in another three audits. Of the 16 audits where no working papers were signed, eight (50%) had at least two auditors.
- Twenty-three of the 27 audit reports contained a number of recommendations that employers were expected to comply with. Although we were told by management that the employers had accepted all recommendations, in eight of these audits we found no documentation in the auditors' working papers to support recommendations. In 15 other audits, we found documentation, of varying sufficiency and appropriateness, to support only some of each report's recommendations.

Manager does not review auditors' working papers

The manager does not review auditors' working papers to ensure the work performed supports a report's various findings and recommendations. The manager only reviews and approves the final audit report. We would have expected the audit work to be reviewed by a supervisor to ensure the findings support the recommendations made by the Division.

Implication and risks if recommendation not implemented

Without conducting an employer risk assessment for its next three-year audit cycle, the Division may not audit high-risk employers on a timely basis, resulting in the potential for prolonged non-compliance—and impaired public service levels.

Without having adequate procedures for gathering and documenting evidence subject to an appropriate level of independent review, there is an increased risk of invalid conclusions and recommendations.

3. Monitoring employers' investigations of peace officers

Recommendation No. 16

We recommend that the Department of Solicitor General and Public Security improve monitoring of employers' investigations of complaints made against peace officers by:

- **following current policy and best practices, including managerial approval of concluded files, and implementing proper filing procedures**
- **providing written notification to an employer when closing a file**
- **better maintaining its databases**

Background

Employers must investigate complaints against peace officers

An authorized employer is responsible for investigating complaints made against its peace officers under Sections 14 or 16 of the *Act*. If the allegation is of criminal misconduct, the Peace Officer Program's policy requires the complaint be forwarded to the police force of jurisdiction. The Division recommends the employer should delay any associated public complaint investigation until the police investigation has finished.

Employers required to notify Division about complaints

The employer is required to notify the Division of certain types of complaints made against one of its peace officers.[13] These reporting requirements include providing status updates every 45 days to the complainant and the Division. Depending on the nature of the complaint, the peace officer may be advised of the complaint and be provided with 45-day updates. An employer must notify the Director of the disposition of a complaint using wording found in Section 22 of the *Peace Officer (Ministerial) Regulation*.[14] The Division refers to any complaint against a peace officer that an employer must notify it about as a

[13] See pages 55 to 57 of the Peace Officer Program's *Policy and Procedures Manual* for a detailed breakdown of these reporting requirements.

[14] This says the complaint can be disposed of in one of four ways: as (1) unfounded (2) unsubstantiated (3) having merit in whole or in part or (4) as being frivolous, vexatious or made in bad faith.

"Reportable". The Division sends a letter to the employer acknowledging receipt of the notification of the complaint made against the peace officer.

Division auditors assigned to monitor some employer investigations

The Division assigns a tracking number for each Reportable it receives and enters it into a spreadsheet. The Manager will review the Reportable and may assign a Division auditor to monitor the progress of the employer's investigation. Reportables assigned to auditors are classified as investigations and have Division files opened. All subsequent 45-day employer status updates and the final disposition report are directed to the assigned auditor. If the auditor concurs with the disposition report, the file is sent back to the manager for approval and closure. If not, the file is forwarded to the manager to decide if the Division will consider action under Section 17 of the *Act*. The *Act* allows the Division to direct the employer to continue with the investigation or to have the Division conduct its own investigation.

Some investigations filed as information

Reportables not assigned to a Division auditor are considered as information received for annual statistical report purposes only and do not have a Division file opened. No further action is taken by the Division and the Initial Incident Report form and any accompanying documentation are retained in dedicated binders indexed alphabetically by employer.

Information in database used for statistical report

Information from all Reportable types received and entered into the database during a calendar year is used to compile a summary statistical report for the Division's assistant deputy minister.

Criteria: the standards we used for our audit

There should be processes in place to adequately:

- file all pertinent documentation associated with employer reported incidents
- review and approve investigations assigned to Division auditors
- capture complete and adequate summary data of all employer reported incidents, for statistical reporting purposes

Our audit findings

Division processes were not always followed

These criteria are partly met. We found the Division has processes to monitor employers' investigations. However, these processes were not always followed.

The following table summarizes the number of employer reported incidents received by the Division between 2007 and mid-2009, how many of these were assigned to Division auditors as investigations, and the sample size of closed investigations we chose to audit.

Year	Total reportables received	Number classified as investigations	OAG file sample size	Sample files Division could not find
2007	329	31	12	7
2008	320	53	10	4
2009	134	28	7	0

We found that:

11 files from audit sample could not be found

- The Division keeps the original documents for the 2007 investigations in binders indexed alphabetically by employer.[15] The documents in the binders for seven investigations from our sample were missing. Four of the ten closed files from our 2008 sample were missing. Division staff could not locate any of these documents or files. While the frequency of missing documents or files decreased in each successive year, this issue is indicative of poor file maintenance procedures.

Required letters missing

- Three of the 2008 files and one of the 2009 files did not contain the required letter of acknowledgment from the Division to the employer.

Concluding correspondence a good practice

- Four of the files included concluding Division correspondence addressed to the employer confirming approval of the employer's disposition.
- All files found contained complete and appropriate documentation from employers.

In 2008, the Division introduced a date tracking sheet for each investigative file.[16] This sheet is used to record the date the assigned auditor concludes the file and for the manager's review and approval to close the file. Our review of the tracking sheets from 2008 and 2009 closed investigation files is summarized in the following table:

Year	Tracking sheets reviewed	Not signed by manager	Not signed by auditor	Tracking sheet missing
2008	30	25	4	1
2009	14	13	3	0

[15] This practice was only in effect for 2007. Beginning in 2008, the Division created a separate folder for each employer investigation overseen by an auditor. All documentation related to a particular investigation was kept in this folder, which was then filed in a dedicated filing cabinet once the Division closed the matter. Only documents associated to non-investigation Reportables were kept in employer-indexed binders.

[16] This sheet included space for the following information to be entered: employer agency, tracking file number, investigator, date assigned, any actions taken in relation to file oversight and date done, comments, date concluded and signature of investigator, signature for supervisory approval and date approved.

Division policy requiring managerial approval not followed

Division policy was not followed for 38 files closed in 2008 and 2009, which were not submitted to the manager for sign-off. Without the manager reviewing and approving investigation files before closure, the Department and the public lack assurance that the Division is satisfied with employer dispositions of public complaints against peace officers. Proper oversight of the disposition of these complaints is in the public interest.

Investigation status entered incorrectly into databases

We reviewed the information entered by the Division into the three Reportable spreadsheets and found:

- The 2007 spreadsheet showed only six of the 31 closed investigations as concluded. Fourteen investigations were shown as open, while 11 had no entries at all.
- Thirty of the 53 investigations overseen in 2008 were confirmed by us to be closed. However, only 16 investigations were shown as concluded in the 2008 spreadsheet, while three were misclassified as Reportables rather than investigations.
- At the time of our audit, 14 of the 28 investigations overseen in 2009 were confirmed by us to be closed. Only 12 investigations were shown as concluded in the 2009 spreadsheet.

Data fields in spreadsheets not consistently filled out

Data fields in the spreadsheets for all three years for which information was available from employer submitted documents were not consistently filled out for investigations. These spreadsheets are used to compile information for the assistant deputy minister. If databases are not property maintained, any summary statistical reports prepared from them will be inaccurate.

We found no investigations conducted by the Division as directed by the Director of Law Enforcement under the authority of Section 17 or 19 of the *Act* between 2007 and 2009.

Implication and risks if recommendation not implemented

Without following established processes, the Department's system for monitoring employer investigations of complaints made against peace officers and ensuring public interest is protected lacks credibility.

AUDITOR GENERAL
Alberta

Systems Audits—
Follow-up on Prior Audits

Report of the Auditor General of Alberta—April [illegible]

Executive Corporate Credit Cards—Follow-up

Improving controls for use of executive corporate credit cards—satisfactory progress

Background

In 2007, we audited systems the Department of Treasury Board used to monitor use of executive corporate credit cards. We made one recommendation in our *2006–2007 Annual Report* (vol. 1—page 174).

We recommended that the Department of Treasury Board, working with all other departments, further improve controls for the use of executive corporate credit cards by:

- communicating responsibilities to all cardholders
- clarifying the support required to confirm both the nature and purpose of transactions
- providing guidance to senior financial officers and accounting staff on dealing with significant non-compliance

This year, we conducted follow-up work to assess the Department of Treasury Board's progress in implementing the recommendation. We conducted our fieldwork from October 2009 to January 2010 and focused on the Department of Treasury Board's actions since our *2006–2007 Annual Report*. We met with the Office of the Controller at Treasury Board and visited four departments to meet with the senior financial officers and to conduct testing—Culture and Community Spirit, Finance and Enterprise, Solicitor General and Public Security, and Energy.

Our audit findings

Treasury Board has made satisfactory progress

The Department of Treasury Board developed a process to monitor and report non-compliance. The Department has communicated responsibilities to cardholders, updated guidance to accounting officers and expenditures officers, and introduced the *Non-Compliance Resolution Model* to provide additional guidance to senior financial staff.

However, the Department of Treasury Board has not fully implemented our recommendation. We found insufficient supporting documentation for transactions and evidence that its model has not been complied with by the departments.

Communicating responsibilities to cardholders and department staff

Communication to cardholders and senior financial staff

The Department of Treasury Board has taken the following steps to clarify the processes for using corporate credit cards:

- communicated cardholder responsibilities by issuing two memos from the President of Treasury Board to all cardholders
- updated the accounting officer and expenditure officer manuals with sections on the corporate cards
- discussed the issue at the Senior Financial Officer Council
- introduced and communicated the *Non-Compliance Resolution Model* to provide further guidance to senior financial staff on their role and responsibilities in monitoring compliance with use of the cards

Non-compliance resolution model

Guidance on dealing with non-compliance

The Department of Treasury Board developed the *Non-Compliance Resolution Model* to provide guidance to senior financial staff at the Departments in dealing with issues of non-compliance. The model was approved by the President of Treasury Board and presented at the October 2008 Senior Financial Officers' Council Meeting. It was distributed to all cardholders with a memo from the President of Treasury Board in November 2008, and has since been included in both the expenditure officer and accounting officer manuals.

The model defines non-compliance as:

- personal expenses not incidental to government business
- personal or incidental expenses not reimbursed to government
- proper documentation not submitted and no missing credit card receipt form completed—Proper documentation is considered detailed receipts and detailed explanations for any receipts where the reason for the purchase is not clear.

Monthly exception reports noting incidents of non-compliance are to be presented to the deputy minister. If there is non-compliance that cannot be resolved at the department level, the matter should be reported to the Treasury Board Controller.

Monthly exception reporting not implemented

In our testing at four departments, we found individual incidents of non-compliance that, in our view, required exception reporting under the model. However, none of the departments we tested had prepared a monthly exception report. For example, we found evidence of a personal expense for hotel accommodation incurred in October 2008. The cardholder repaid the amount thirteen months later, after we inquired about the transaction.

Supporting documentation

Restaurant expenses have insufficient support

In our testing of the four departments, most expenses, except for restaurant purchases, were supported with adequate detailed receipts and the reasons for purchases were generally clear. We noted an overall improvement since the original audit in 2007.

However, for transactions at restaurants, relating to hosting and working session expenses, there was a consistent lack of detailed receipts. We reviewed a total of $55,000 in receipts from restaurant transactions over a period of 18 months. We found that $22,000, 40% of the total, was supported with a credit card slip instead of a detailed receipt. In some instances, there was no indication of the purpose or attendees. Without complete information, it is not possible to determine if hosting and working session policies, as outlined in the *Treasury Board Hosting Directive*, are being adhered to.

What needs to be done

In order to fully implement the recommendation, the Department of Treasury Board, working with all departments, needs to ensure that:

- sufficient supporting documentation is consistently gathered by all departments
- monthly exception reports are prepared when there are instances of non-compliance

Child Intervention Services—Follow-up

Enhanced child intervention standards—implemented

Background

Follow-up on our 2006–2007 recommendations

In our *2006–2007 Annual Report* (vol. 1—page 79), we recommended that the Department of Children's Services[1] review and update child intervention standards in support of its new casework practice model.[2]

New standards for child intervention recommended

We noted that the standards didn't support the family enhancement stream of service delivery or promote and measure outcomes experienced by children in care. We knew that the Department was developing its new casework practice model at that time and therefore recommended re-examining the standards to support the model.

Measurable outcome indicators developed

The Department participates in a national group[3] that developed the following series of measurable outcome indicators for child intervention services:

- recurrence of maltreatment
- serious injuries and deaths
- child behaviour
- out-of-home placement
- moves in care
- permanency status
- family moves
- parenting
- ethno-cultural placement matching
- attending school at an age-appropriate level

Our audit findings

Updated standards will result in measurable outcomes

The Department updated child intervention standards in support of the casework practice model. The Department now operates with six standards, down from the sixteen we noted in our original report. The underlying principle is that compliance with the updated standards will result in children in care experiencing measurable, positive outcomes.

[1] Now the Department of Children and Youth Services

[2] The practice model is intended to represent the intent of legislation by providing effective and responsive interventions that can be measured to ensure consistent practice and improve outcomes for children and families.

[3] The National Child Welfare Outcomes Indicator Matrix (NOM) was developed through a series of consultations initiated by the provincial and territorial Directors of Child Welfare and Human Resources Development Canada (Trocmé, Nutter, MacLaurin, & Fallon, 1999).

The six updated standards relate to both family enhancement and intervention streams. Each standard has compliance requirements measured through a case file review process:

1. **Emergency response and safety:** at all times throughout the case the caseworker must consider the safety of the child or youth when determining response time.
2. **Initial client contact:** there must be private face-to-face contact with the child or youth in need, other children in the home and the guardian(s).
3. **Planning and permanency:** planning should involve all relevant people and focus on specific goals, the need for stability, continuity of care, culture, relationships and permanency.
4. **Caseworker contact:** purposeful and regular contact is critical to understanding the needs of the child or youth. This maintains the minimum 3-month requirement from previous standards.
5. **Cultural connectedness for aboriginal children and youth:** a child's self-identity and sense of belonging are positively affected by relevant cultural involvement. Cultural goals are required to be part of planning.
6. **Placement:** a safe, suitable, quality placement is sought on a timely basis. Placements must be licensed and accredited, as required or proper background checks must be made.

Updated standards are no less stringent than predecessors

We considered if the six updated standards were any less stringent than their predecessors. We concluded that the principles and requirements of all former standards are still required through a combination of policy, practice equivalents and the current standards.

Four remaining recommendations to be followed up on in the future

We will examine the implementation status of the four remaining 2006–2007 recommendations made to the Department and to Alberta's Child and Family Services Authorities (Authorities), in upcoming public reports. This future work will include an examination of compliance monitoring processes by the Department and Authorities, and how the Authorities implement the updated standards and evaluate contracted service providers.

MLA Expense Payments—Follow-up

Strengthen policies for members service allowance—implemented

Background

In 2007, we audited systems the Legislative Assembly Office used to support Members of the Legislative Assembly in their role as elected representatives. We recommended that the Members' Services Committee clarify policies and guidelines governing:

- purchases of gifts by Members
- payments of bonuses to constituency employees by Members

Members are allocated an annual budget (Members' Services Allowance or MSA) through which costs for operating and staffing their constituency offices are processed. Expenditures against this budget include promotional items or gifts Members purchase for constituents and remuneration to constituency employees. There is no limitation on the amount Members can spend on specific expenditure categories, provided they do not exceed their total MSA budget.

Gifts—In our 2007 audit, we found that the guidelines governing the purchasing of gifts by Members for their constituents needed clarifying. It was unclear to us what the Member's Services Committee contemplated as being suitable purchases.

Bonuses to constituency employees—In our 2007 audit, we found that four Members provided their constituency employees with achievement bonuses in excess of $15,000 for the year; in two instances, the amount of the bonus was equal to or surpassed the employee's earnings for the year.

Timing and extent of audit work

We conducted follow-up work to assess the Legislative Assembly Office's progress in implementing the recommendation. We conducted our fieldwork in December 2009, testing Member expense transactions and achievement bonus payments to constituency employees between April 1, 2008 and September 30, 2009. We also examined applicable legislation, policies and guidelines.

Our audit findings

Gifts

In October 2007, the *Constituency Services Order (MSC1/07)* was amended to provide new guidelines to Members on gifts purchased for their constituents. The changes were:

- the value of items must not exceed $400
- purchases of alcohol are prohibited

- items must not be given to another Member, or given under personal or partisan circumstances

Eighty-three Members collectively purchased $965,000 of gifts for the year ended March 31, 2009, and $256,000 between April 1 and September 30, 2009. We sampled transactions for 42 of the 83 Members during this period. Gift purchases were approved by the Member and reviewed by office staff to ensure they complied with the new guidelines. The transactions we tested complied with the guidelines.

Bonuses to constituency employees

The office has clarified constituency employee remuneration policies and guidelines by further defining and developing the *Constituency Office Compensation and Benefit Plan*. This plan encourages regular performance review and recommends pay scales equivalent to positions in the public service. Achievement bonuses are also based on public service practices.

Between April 1, 2008 and September 30, 2009, the largest bonus payment was $4,086. We sampled six payments and found one payment exceeded the recommended guideline of 7% for an achievement bonus. The office communicated the guidelines to the Member, but the Member opted to proceed. It was within the Member's discretion to authorize this expenditure from his/her Members' Services Allowance.

The office has communicated the processes of the compensation plan and has clarified its guidance to Members in the area of employee compensation.

Review of temporary residence allowance—implemented

Background

In 2007, we recommended that the Members' Services Committee review the system governing the temporary residence allowance, to ensure it was working as intended.

Our audit findings

The Members' Services Committee met in October 2007 to discuss the provisions of the sessional and non-sessional temporary residence allowances. A motion was passed not to proceed with any amendments to the temporary residence allowance. Committee members confirmed that it was working as intended. Prior to each session, the Speaker issues a memo to Members outlining the amounts they can claim under this allowance.

For the year ended March 31, 2009, the monthly rate was $1,850 per month. $1.9 million was paid in temporary residence allowance to 60 eligible Members.

Sand and Gravel—Follow-up

Royalty rates for sand and gravel—implemented

Background

In 2008, we assessed whether the Department of Sustainable Resource Development had effective systems to allocate and collect royalties for sand and gravel resources, and could ensure responsible environmental stewardship of public lands. We made five recommendations in our *October 2008 Report* (see page 356), focusing on the Department's need to improve monitoring and enforcement of operators' legal obligations, assess current royalty rates and sufficiency of security deposits, and consolidate its information.

This year, we conducted follow-up work to assess whether the Department has implemented our recommendation to assess whether current royalty rates for aggregate resources on public lands meet the aggregate allocation program's goals and objectives (*October 2008 Report*, No. 42—page 364). The remaining four recommendations require a longer implementation timeframe, and we will follow-up and report on their implementation in the future.

The objective of the Department's aggregate allocation program for royalties is to ensure Albertans get a fair return from the commercial use of aggregate resources, which includes sand and gravel. When we made our recommendation, the Department had not conducted a royalty rate review since 1991.

Our audit findings

The Department implemented our recommendation by comparing the royalties charged in Alberta to the ones charged in other jurisdictions. The Department found that Alberta's royalty rates are slightly higher than in most of the other jurisdictions.

Identifying and Managing Conflicts of Interest for Contracted IT Professionals—Follow-up

Review and revise conflict-of-interest provisions in IT contracts—implemented

Background

In 2007, we audited systems at the then Department of Infrastructure and Transportation to determine if they could effectively identify and manage apparent or real conflicts of interest. We focused on contracted IT professionals developing the Transportation Infrastructure Management System (TIMS).[1] We concluded that the Department had a system to identify and manage conflicts; however, it was not effective for identifying conflicts of interest among IT subcontractors. We also found the Department did not have guidelines for investigating apparent or real conflicts of interest.

In this report, we follow-up the two recommendations we made to the Department in April 2008:[2]

- review and revise conflict-of-interest provisions in IT contracts, in consultation with the Department of Justice
- improve its system of identifying and managing conflicts of interest

Our audit findings

In August 2009, the Department requested that the Department of Justice review the conflict of interest provisions in its IT contract template. Justice suggested a number of revisions for the Department's consideration. These were incorporated into a new contract template for IT professionals the Department approved for use in November 2009. The changes address subcontractors and conflict of interest issues.

There are currently 22 IT professionals directly contracted to the TIMS project. We found no issues of concern relative to the contracts for these 22 IT Professionals.

[1] TIMS is an integrated web-enabled system intended to support the Department's management of provincial highway infrastructure, using a variety of custom designed software applications. TIMS has been under development since 1996. Project development is done by contracted IT professionals and not government employees.

[2] *Report of the Auditor General of Alberta—April 2008*, pp. 149–161.

Improve the system for identifying and managing conflicts of interest for IT professionals—implemented

Our audit findings

The Department developed guidelines for recognizing and acting on real or perceived conflict of interest issues involving contracted IT professionals. Guidelines were drafted at the beginning of 2009 and revised throughout the year. The final version was approved by the Department in November 2009 and distributed to division heads and appropriate staff. We conclude that these guidelines sufficiently improve the Department's system for identifying and managing apparent or real conflicts of interest.

AUDITOR GENERAL Alberta

Financial Statement and Other Assurance Audits

Report of the Auditor General of Alberta—April 20[illegible]

Alberta's Consolidated Financial Statements

Summary

In this chapter, we highlight a significant change that will occur in the Province's consolidated financial statements this year—the adoption of line-by-line consolidation. We also discuss new auditing standards that we will use next year.

Line-by-line consolidation

This year, for the first time, the Province's consolidated financial statements will include schools, universities, colleges and the provincial health authority (the SUCH sector), using line-by-line rather than modified equity consolidation. We discussed the differences between these two approaches in our *Report of the Auditor General of Alberta April 2009* (page 70).

The consolidation of the SUCH sector results in some changes in how budget-to-actual comparisons are done in the Province's financial statements. These changes are consistent with the accounting standards the government follows. In this section, we provide some observations and context for the changes Albertans will see in the Province's financial statements.

The SUCH sector is included because the government controls these organizations

The SUCH sector organizations are included in the Province's consolidated financial statements because the government controls these organizations. Control is not about who legally owns the assets. Control, as defined in accounting standards,[1] is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from that organization's activities. A government may choose not to exercise its power; nevertheless, this control exists by virtue of the government's ability to do so.

Including the SUCH sector in the Province's consolidated financial statements presents the full scope of the government's activities, from the point of view of the Province. This change may also bring some accounting matters to Albertans' attention. For example, capital grants currently appear as expenses in the government's budget but, for accounting purposes, when the SUCH sector is line-by-line consolidated, these capital grants will appear in the Province's

[1] See Public Sector Accounting Standard 1300, paragraphs 08-16.

consolidated financial statements as capital assets. Accountants treat these matters in particular ways to avoid double counting of expenses.[2]

Understanding these technical accounting matters will help Albertans understand why, when including the SUCH sector line-by-line, the Province's net assets will increase by about $14 billion and its surplus will increase by about $2 billion. Understanding this change also helps focus on the big picture—the overall government entity that includes the SUCH sector—and what the combined results actually mean, and how they can best be understood, when everything is put together using line-by-line consolidation.

Line-by-line consolidated results present the full scope of the government's activities. Albertans receive the full picture of the government's finances, without having to distinguish whether it is the "government" or some other public sector organization being held accountable—they are all included.

However, line-by-line consolidation of the SUCH sector raises an issue—comparison of budget to actual—that we believe it is important for Albertans to consider when reading the Province's consolidated financial statements.

Budget to actual comparisons provide useful, transparent information

The comparison of budget to actual is fundamental to processes of transparency, accountability and good government. The budget is prepared by the government and voted on by the Legislative Assembly. The budget of the government, when announced, receives considerable attention because the budget is the government's plan for what it wants to do, where its priorities are, and how it will pay for these.

Budget to actual comparisons will be more difficult

SUCH sector entities have their own governance and budgetary processes. Their budgets are not voted on by the Legislative Assembly, unlike the government's own budget. Their budgets are not included in the government's budget.[3] Nevertheless, as discussed above, with line-by-line consolidation, the SUCH sector entities' actual results will be included in the Province's consolidated financial statements, because they are controlled by the government.

Therefore, an issue arises with budget-to-actual comparisons: the budget doesn't include the SUCH sector, while the actuals do. Comparisons become much less useful, and may be more confusing than helpful.

---

[2] Capital expenditures are outlays of cash, but are not expenses until the asset is used and amortization is recorded. Albertans may be interested in whether a government has enough revenues to cover both its operating expenses and its capital expenditures, but such an analysis must also consider what cash the government has on hand (such as in the Sustainability Fund) and other sources of cash, such as debt issuances, tax increases, or spending reductions. The Province's consolidated statement of cash flows is important for understanding its sources and uses of cash.

[3] The government's budget includes SUCH sector funding, such as grants. But this is different from including the actual SUCH sector budgets. For example, university tuition revenue is not included in the government's budget.

Accounting standard setters have considered this issue. The accounting standards state that when the scope of government activity reported in the budget is not the same as that reported in the financial statements, the budget to actual comparison may be restricted to the scope reported in the budget. In other words, if the budget doesn't include the SUCH sector, the actuals that are compared to the budget do not need to include the SUCH sector.

Budget to actual comparison is no longer in the statement of operations, but is in the notes

The government will adopt this approach for this year. The government's approach is consistent with accounting standards. The actuals reported in the statement of operations will include the SUCH sector but, unlike prior years, the statement of operations will not include a comparison to budget. Instead, the budget-to-actual comparison will be provided only in the notes to the financial statements, and will compare budget to actuals that exclude the SUCH sector.[4]

Current approach has merit

The government's approach has considerable merit. The government's Budget consists of the fiscal plan, strategic business plan, ministry business plans, and the Government and Offices of the Legislative Assembly estimates. As well, the government provides updates through the year via the government's quarterly reporting process, and at year end prepares the Province's consolidated financial statements, and the financial statements of ministries and other entities, which we audit.

Together, these established processes provide accountability to Albertans. To change these processes to facilitate budget-to-actual comparisons on a line-by-line basis would not only be an accounting matter, but also could have wider budgetary and governance implications. We discuss these below.

A line-by-line budget is an option

Preparation of a formal line-by-line budget is one potential approach. A line-by-line budget would include the revenues and expenses of government departments as well as the revenues and expenses of SUCH sector entities. Revenues of the SUCH sector, such as tuition revenue of universities, would be included in budget revenues. Some expenses of government departments, such as capital grants to the SUCH sector, would no longer be identified as expenses of the government but would instead be included as capital assets.

One concern of creating a line-by-line budget is that SUCH sector entities, while controlled by government, are not part of the established budgetary processes of government. SUCH entities have their own governance systems, which include setting their own budgets. From this view, creating a line-by-line budget may overlap with SUCH entities' own governance systems.

[4] This will affect the Province's consolidated financial statements plus the financial statements of three SUCH sector ministries—Advanced Education and Technology, Education and Health and Wellness.

Another approach is to create a budget for accounting purposes. A budget like this would add together the government's voted budget, as it is presently prepared, with the budgets of SUCH sector entities. After appropriate consolidation adjustments, this budget could be used for comparison to line-by-line actuals. However, this would be a budget constructed for comparison purposes only, not the actual budget voted on by the Legislative Assembly.

Government's approach in accordance with accounting standards and budgetary processes

Given the consolidation of the SUCH sector, it is not a straightforward matter for the government to provide budget-to-actual comparisons as it has done in the past. When reading the Province's consolidated financial statements, Albertans can keep in mind that the government has dealt with this in a way that preserves the existing budgeting process and is in accordance with accounting standards.

Auditing Standards

Canadian auditors are adopting international auditing standards

The Auditor General conducts audits in accordance with generally accepted auditing standards. In Canada, the Auditing and Assurance Standards Board (AASB) has authority to set these standards. A few years ago, the AASB decided that Canada would adopt international standards of auditing. These international standards of auditing, when applied in Canada, are called CAS (Canadian Auditing Standards).

The decision to adopt international auditing standards was supported by stakeholders. International standards of auditing are being adopted globally; more than 100 countries have adopted them. These international standards are set by the International Auditing and Assurance Standards Board, which follows a clear process for setting audit standards. Canada has representation on the IAASB.

The Auditor General will use CAS for our audits next year. For the most part, the transition to CAS will be almost invisible to Albertans—the old Canadian standards are quite similar to the new ones. We are confident that our audits will be of the same high quality and efficiency under CAS as they were under the old Canadian standards.

Our auditor's reports will change slightly

Albertans will notice some changes, however. Our auditor's reports will change. The report will include an additional paragraph that highlights management's responsibility for the financial statements.

Under the new CAS, auditors may include in their auditor's report what is called an *emphasis of matter* paragraph or *other matters* paragraph. Such paragraphs are used when the auditor considers it necessary to draw attention to a matter in the financial statements that is important to users' understanding of the financial statements. We would include such a paragraph when we felt it necessary to draw Albertan's

attention to a particular issue in the financial statements. This gives us more flexibility in communicating important items to Albertans.

Our mandate stays the same

The change in auditing standards is not a change in the *Auditor General Act*, nor a change in our mandate. The change in auditing standards affects only audits of financial statements, such as the Province's consolidated financial statements or the financial statements of ministries, departments, agencies, boards and commissions. At this time, our systems audits are unaffected by the transition, and Albertans can expect that we will continue to perform systems audits as we have in the past.

Advanced Education and Technology

Overview

Three common themes from last year's audits

This year, we continue to report on our recommendations to Alberta's colleges and technical institutes (together referred to as institutions) under the three themes that we highlighted in our *April 2009 Report* (page 75):

- **improve financial reporting**—provide timely, relevant and accurate financial reports to senior management and board audit committees—see page 153
- **improve internal control systems**—improve internal controls to safeguard assets such as cash, limit information systems access to appropriate staff, clarify and segregate roles and responsibilities of staff, review and approve transactions to ensure they are valid and reasonable, and reconcile financial records promptly to ensure complete revenue recognition and valid financial information—see page 154
- **preserve endowment assets**—define goals for the use and preservation (to inflation proof) of the economic value of endowment assets—see page 157

Enterprise risk management

This year, we identified a new area where most institutions could improve their systems:

- **improve enterprise risk management systems**—clarify roles and responsibilities for risk management processes that identify, assess and manage risks, and report the results to senior management and the board or appropriate board committee—see page 153

Internal controls:

We also identified the following common issues:

Bookstore operations

- improve internal controls over bookstore operations (identified at three institutions). Bookstore revenue often represents an institution's most significant form of other revenue, after grants and tuition fees—see page 154

Hosting guests and internal working sessions

- improve policies and internal controls over costs for internal working sessions and hosting guests—see page 155

Progress report on IT control framework

In our *April 2008 Report* (page 195), we recommended that the Department of Advanced Education and Technology give guidance to public post-secondary institutions on using an IT control framework to develop control processes that are well-designed, efficient and effective. This year, we report on the progress of the Department and institutions to implement this recommendation—see page 171.

Campus Alberta

We decided to make certain recommendations to the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) to work with institutions to identify good practices and develop guidance they can use to implement or improve their systems.

Campus Alberta is a set of principles developed to ensure key stakeholders in the Advanced Education system work together to deliver seamless learning opportunities for Albertans.[1] Campus Alberta's objective is to reduce barriers to learners and create greater collaboration among public post-secondary institutions. The Campus Alberta Strategic Directions Committee advises the Minister about issues related to Campus Alberta. The board chairs of all publicly funded post-secondary institutions are members of this Committee and the Minister chairs the Committee. It will be a more efficient and effective way for all institutions to work together to resolve common issues in the sector.

Summary of our recommendations

We reported to each institution's management on internal control weaknesses identified in our audits of its financial statements. Sufficient internal controls are critical for institutions to effectively and efficiently meet goals, safeguard assets and reduce the risk of fraud and error.

Grant MacEwan started several good initiatives, but more work is needed

In our *April 2009 Report* (page 75), we reported that Grant MacEwan University[2] had an ineffective control environment for an institution of its size. The University started several initiatives to improve its control environment, resolve staffing and information system issues, and fix internal control weaknesses. These initiatives are positive steps to resolve staffing and information systems issues, and fix internal control weaknesses. However, the University needs to implement well-designed processes, train staff and monitor staff's adherence to policies and processes. The University still needs further improvements to its control environment. The issues covered in this report relate to the University's control environment, the implementation of its new enterprise resource planning system, risk management processes and financial reporting to management and the board's audit and finance committee. We also cover its endowment and related investment management and reporting, and procurement processes.

[1] http://www.advancededucation.gov.ab.ca/post-secondary/campusalberta.aspx

[2] By Order in Council (O.C. 481/2009 September 24, 2009) Grant MacEwan College's name changed to Grant MacEwan University.

Improve enterprise risk management systems

Improve risk management systems working with Campus Alberta

Effective enterprise risk management systems give boards and senior management relevant and timely information on significant strategic, business, operational and financial risks that Institutions face. This allows boards, often through their audit committees, to effectively oversee the risk management systems that management uses to assess those risks, identify changes and manage them appropriately. While all institutions manage risk, we found that Grant MacEwan University, Keyano College, Lethbridge College, Medicine Hat College, Mount Royal University, Olds College, Portage College, Red Deer College and Southern Alberta Institute of Technology could, to varying degrees and for various reasons, improve their risk management systems. We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) work with institutions to identify best practices and develop guidance for effective enterprise risk management systems—see page 158.

Good practice at NAIT

Northern Alberta Institute of Technology has effective processes to identify and update its risk assessment, which its senior management discusses regularly at management meetings. NAIT's president provides a quarterly risk management report to the board.

Improve periodic and year-end financial reporting and related processes

Management and audit committee need good information

Management needs timely, relevant and accurate financial information to run an institution. They provide summarized financial information to an Institution's audit committee to allow it to effectively oversee and objectively assess the Institution's overall performance.

Similar issues still noted at some institutions

Bow Valley College implemented our prior-year recommendation to improve financial reporting to senior management and its audit committee. We continue to identify similar issues at other institutions around financial reporting, which we reported in our *April 2009 Report*. This year, we found that the following institutions should improve financial reporting to their board's audit and finance committees and senior management by providing—at least quarterly—complete statements of financial position and actual year-to-date operating results:

- Grant MacEwan University—see page 160
- Portage College—see page 160

We also repeat our recommendation that Medicine Hat College improve its financial reporting to the board by including—at least quarterly—complete statements of the College's operations, financial position and changes in net assets—see page 160.

Effective procedures ensure good information

To provide management and audit committees with timely, relevant and accurate financial information, institutions should have effective period and year-end processes. This includes clear policies and procedures over financial reporting, clear roles and responsibilities for financial and operational staff, and quality control processes to ensure the information is reliable. If institutions have weak processes to prepare periodic financial reports, they are more likely to experience difficulty preparing timely and accurate year-end financial statements.

Financial reporting weaknesses caused material audit adjustments

We repeated our recommendation to the Alberta College of Art and Design (ACAD) to improve its processes and controls to increase efficiency, completeness and accuracy in financial reporting. This year, we also recommend that NorQuest, Olds, Portage, and Lakeland colleges, to varying degrees and for various reasons, improve their processes and controls for efficient and accurate financial reporting—see page 162. These institutions, in particular ACAD, had difficulty preparing timely and accurate year-end financial statements resulting in extra resources to complete ACAD's financial statements audit. Several of the institutions made material adjustments to their financial statements because of our audits.

Improve internal controls systems

Internal controls needed for bookstores and hospitality costs

In our *April 2009 Report* (page 77), we highlighted internal control issues over payroll, payments for goods and services, and revenue collections. This year, we identified further internal control issues related to bookstores and systems over the costs of hosting guests, internal working sessions, sponsoring events and making donations.

All institutions should consider issues

All public post-secondary institutions in Alberta would benefit from considering these issues and determining whether they have effective policies and processes to manage these areas.

Bookstore operations

Basic elements of internal controls for bookstores

Effective internal controls over bookstore operations should:

- segregate incompatible functions so that no one person can initiate, approve and record transactions
- restrict access to information systems and inventory to appropriate staff
- physically safeguarding inventory, cash and debit card machines by restricting access to appropriate staff
- complete timely inventory counts that are compared to actual records, then investigate any variances

We found the following weaknesses in internal controls over bookstores:

- Alberta College of Art and Design should maintain an effective system of internal controls to enhance the integrity of its bookstore operations—see page 181
- Olds College should improve internal controls in the bookstore relating to sales and inventories—see page 184
- Norquest College should implement proper segregation of duties within its bookstore services—see page 186

Grant MacEwan found $97,000 suspected fraud in its bookstore

This year, Grant MacEwan University completed its forensic accounting investigation, from September 2007, into the management of various stores. Originally, it focused on $30,000 missing from petty cash. The final investigation found approximately $97,000 in suspected fraud related to petty cash, cash floats and refunds using debit card machines. But, the University has not yet fully implemented our *April 2008 Report* recommendation to improve its controls over its bookstore operations—see page 180.

Management must consider the risk of potential fraud or other inappropriate activity (theft of cash and inventory, invalid refunds processed through debit card machines, payments to fictitious suppliers) in its bookstore operations, as well as the risk of errors in financial reports. A strong control environment can reduce these risks to an acceptable level, but will not eliminate them.

Systems over costs for internal working sessions and hosting guests

Controls needed for costs of internal working sessions and hosting guests

Public post-secondary institutions reimburse board members, management and staff for costs incurred for necessary travel as well as for hosting guests and internal working sessions carried out in the conduct of their business. They also occasionally sponsor events, make donations and provide gifts to recognize staff performance or retirement. Effective systems must ensure those costs comply with legislation and appear to be a reasonable use of public funds to an impartial observer.

Generally had well-defined policies, some improvements needed

Institutions that were part of this audit generally had well-defined policies for costs related to internal working sessions and hosting guests, except the University of Calgary, Grant MacEwan University and Red Deer College. While institutions generally complied with their respective policies, this report highlights the areas where they need to improve their systems and ensure staff comply with policies.

Grant MacEwan

Grant MacEwan University should:

- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests—see page 165
- follow its policies and processes for employee expense claims and corporate credit cards—see page 165

University of Calgary

The University of Calgary should:

- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests—see page 166
- follow its policies and processes for employee expense claims and corporate credit cards—see page 166

Red Deer College

Red Deer College should:

- implement policies and guidance on appropriate expenses for events related to internal working sessions and hosting guests—see page 167
- strengthen its processes to ensure staff follow its policies and processes for employee expense claims and corporate credit cards—see page 167

University of Alberta

The University of Alberta should follow its policies and processes for employee expense claims and corporate credit cards—see page 167.

Good practices

The University of Alberta and Lakeland College had clear policies and processes over costs for internal working sessions and hosting guests.

Other internal control systems recommendations

Grant MacEwan

Grant MacEwan University should:

- improve its control environment by implementing or improving:
  - a code of conduct and ethics policy and a process for staff to acknowledge they will adhere to its policies—see page 174
  - a process for staff to annually disclose potential conflicts of interest in writing so the University can manage them proactively—see page 175
  - a safe disclosure policy and procedure to allow staff to report incidents of suspected or actual frauds or irregularities—see page 175
  - a responsibility statement in its annual report to acknowledge management's role in maintaining an effective control environment—see page 175
- improve its processes to ensure appropriate staff with proper signing authority approve contracts and purchases—see page 176
- develop and implement a quality assurance program for its Enterprise Resource Planning Renewal Project—see page 177

ACAD

Alberta College of Art and Design should ensure journal entries entered into its financial system are independently reviewed and approved, and include appropriate supporting documents—see page 183.

Red Deer College

Red Deer College should improve its controls over payroll—see page 185.

NAIT

Northern Alberta Institute of Technology should implement processes to ensure:
- guidance exists on the steps required to evaluate potential vendors and the documents required to evidence that a review occurred
- compliance with its purchasing guidelines
- all purchasing decisions are properly justified—see page 187

Preserve endowment assets

Public colleges, institutes, Grant MacEwan University and Mount Royal University in Alberta have about $100 million of endowment funds. Earnings from endowment investments support education, research and teaching. While some donors encourage spending all endowment investment earnings, other donors expect institutions to preserve the real value of endowments over time. In our *April 2009 Public Report* (page 78), we recommended that several institutions define their goals for the use and preservation (inflation proofing) of the economic value of endowment assets.

This year, we recommend that:

Grant MacEwan

- Grant MacEwan University improve its endowment and related investments policies and procedures by:
  - establishing and regularly reviewing a spending policy for endowments
  - improving its process to review its endowment-related investments
  - improving its reporting of investments and endowments to the Audit and Finance Committee—see page 170

SAIT

- Southern Alberta Institute of Technology clarify its expectations for preserving the economic value of its endowment assets and document an endowment policy for managing endowment earnings—see page 170

Keyano, Lakeland, NorQuest, Portage and Red Deer colleges implemented our prior year recommendation to define their goals for the use, and preservation of economic value of endowment assets.

Findings and recommendations

CROSS-INSTITUTION RECOMMENDATIONS

Campus Alberta is a set of principles developed to ensure key stakeholders in the Advanced Education system work together to deliver seamless learning opportunities for Albertans.[3] Campus Alberta's objective is to reduce barriers to learners and create greater collaboration among public post-secondary institutions. The Campus Alberta Strategic Directions Committee advises the Minister about issues related to Campus Alberta. The board chairs of all publicly funded

[3] http://www.advancededucation.gov.ab.ca/post-secondary/campusalberta.aspx

post-secondary institutions are members of this Committee and the Minister chairs the Committee. It will be a more efficient and effective way for all institutions to work together to resolve common issues in the sector.

1. Enterprise risk management

Recommendation No. 17

We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) work with post-secondary institutions to identify best practices and develop guidance for them to implement effective enterprise risk management systems.

Background

Boards oversee risk management systems

Boards are responsible for overseeing an institution's risk management systems, often through audit committees. To do so, they must assess and monitor management's processes that identify and manage the institution's risks. Senior management is responsible to implement effective risk management systems and report to the board on the institution's key risks and mitigating strategies.

Goal is to manage risk appropriately, not always eliminate it

The key to effective, efficient and sustainable enterprise risk management is to focus on significant risks an organization is exposed to. Effective risk management is about understanding the organization's appetite for risks, understanding what risks or opportunities exist, assessing the risks, and then determining what systems are in place or should be put in place to manage them. Risk management systems should be integrated with an institution's other systems. For example, the Department of Advanced Education and Technology is working with institutions to develop IT risk management systems and an IT control framework that should form part of an institution's enterprise risk management systems.

Criteria: the standards we used for our audit

The board of each institution should clearly identify whether the entire board or a specific board committee is responsible for enterprise risk management.

Each institution's management should:

- clearly define roles and responsibilities for risk management
- identify and assess the risks associated with achieving the entity's objectives and implement programs or procedures to manage the risks
- monitor and evaluate risks and the programs or procedures to manage them
- report the risks and actions to senior management and the board

Our audit findings

Institutions working together on IT risk assessments

Post-secondary institutions in Alberta all face similar risks. Collaborating with each other and looking for best practices in the sector could improve their risk management systems. Institutions are working together on risk assessments for information technology and are developing common approaches to business continuity management. There is an opportunity to extend this collaboration to include the broader goal of enterprise risk management. Therefore, instead of making recommendations to each institution, we recommend that the Department of Advanced Education work with institutions, through the Campus Alberta Strategic Directions Committee, to identify best practices and develop guidance that will help all Alberta's post-secondary institutions improve their risk management systems. Institutions should use this guidance and determine how to implement or improve their own systems cost-effectively.

Risk management could be more efficient and effective

While all institutions continuously manage risks, through various methods, these systems could be more efficient and effective in a more coordinated approach. We found that Grant MacEwan University, Keyano College, Lethbridge College, Medicine Hat College, Mount Royal University, Olds College, Portage College, Red Deer College and Southern Alberta Institute of Technology could, to varying degrees and for varying reasons, improve their enterprise risk management systems.

Risk identification or reporting to boards not always comprehensive

They normally assess risks as part of their annual strategic planning, and determine how they will manage those risks. In many cases, this planning covers only strategic risks, and is not periodically updated, re-assessed and reported against. In all institutions, senior management had a key role for enterprise risk management systems, but other levels and departments throughout the organization should participate in enterprise risk management systems. We found varying degrees of involvement by individual departments in institutions' enterprise risk management systems.

Oversight of risk management not always clear

Among the institutions we audited, some had policies that clearly stated whether the entire board or an audit committee of the board is responsible for overseeing risk management; others did not. Some designated the responsibility to manage an institution's risk management systems to a director of risk management or vice president of finance and administration. Others did not have clearly defined roles and responsibilities for risk identification, monitoring and reporting.

Good practice at NAIT

We identified that NAIT has an effective risk management system. This institution has processes to identify and document the key risks associated with achieving its objectives, which are then discussed during regular senior

management meetings. NAIT's president provides a quarterly risk management report to the board that describes the key risks, their rating, any changes, and actions to mitigate the identified risks.

Effective risk management systems

Effective risk management systems systematically identify risks, assess their impact and decide on cost effective approaches to manage risks to acceptable levels. An effective risk management system includes reporting the risks, changes to them, and systems to manage them to senior management and the board's audit committee so they can perform their duties.

Implications and risks if recommendation not implemented

Institutions that lack risk management systems might not identify and manage risk efficiently and effectively, and boards and their audit committees might not effectively oversee institutions' risk management.

2. Periodic and year-end financial reporting systems

Grant MacEwan University—Periodic financial reporting

Recommendation

We recommend that Grant MacEwan University improve its financial reporting to the Board's Audit and Finance Committee and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

Portage College—Periodic financial reporting

Recommendation

We recommend that Portage College improve its financial reporting to the Board and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

Medicine Hat College—Periodic financial reporting

Recommendation Repeated

We again recommend that Medicine Hat College improve its financial reporting to the Board by including—at least quarterly—complete statements of the College's operations, financial position and changes in net assets.

Alberta College of Art and Design—Periodic financial reporting

Recommendation Repeated

We again recommend that Alberta College of Art and Design improve its processes and controls to increase efficiency, completeness and accuracy of financial reporting.

Background

Users' needs for financial information key

Institutions need periodic and year-end financial information and financial statements for their users. These users and their needs include:

- operational managers—who need regular, detailed information to manage their departments effectively
- senior management—who need periodic information to monitor the institution's progress against its plans and approved budgets to decide if any changes are required to resolve emerging issues
- audit committees—who need periodic information, at least quarterly, to effectively oversee and objectively assess the institution's overall performance against approved budgets
- the Minister of Advanced Education and Technology—who needs annual financial statements as required by legislation for institutions' accountability to the Minister. The Department of Advanced Education and Technology also requires institutions to annually report certain financial information to them.

Criteria: the standards we used for our audit

Institutions should have effective systems to produce timely, relevant and accurate period and year-end financial information and financial statements. This includes clear policies and procedures, knowledgeable staff, clear roles and responsibilities, and monitoring and review processes.

Our audit findings

This year and last, we made recommendations to several institutions on the:

- relevancy and timeliness of financial reporting to senior management and their audit committees
- systems to prepare accurate and timely periodic financial information reports and annual financial statements to senior management and their audit committees

This section highlights the recommendations we made, the issues and good practices that all public post-secondary institutions could consider when reviewing their own practices.

Grant MacEwan and Portage College

This year, we recommend that Grant MacEwan University and Portage College improve their financial reporting to their senior management and board audit committees. Similar to issues we reported to other institutions in previous years, these institutions' periodic financial reports failed to include:

- actual results—to enable management and audit committees to assess the reasonability of annual forecasts

- a balance sheet—to allow management and audit committees to assess institutions' financial position

Repeat recommendation—Medicine Hat College

We also repeat our recommendation to Medicine Hat College *April 2009 Report* (page 95) to improve its financial reporting to senior management and the Board, as the College did not take steps to address the recommendation. This year, Bow Valley College implemented a similar recommendation in our *April 2009 Report* (page 94).

Systems needed for quarterly budgets

Institutions must have good quarterly budget information that allows management and the board's audit committee to monitor the actual results against quarterly budgets, and to assess the reasonability of annual forecasts.

Systems to prepare financial information and financial statements

Recommendations to several institutions

This year, we recommend that Lakeland, NorQuest, Olds, and Portage colleges improve, to varying degrees and for various reasons, their processes and controls for efficient and accurate financial reporting. These colleges had difficulty preparing timely and accurate financial statements for audit. Several of them made material adjustments to their financial statements as a result of our audit.

ACAD had significant issues

We repeated our recommendation to the Alberta College of Art and Design (ACAD) to improve its processes and controls to increase efficiency, completeness and accuracy in financial reporting. ACAD had difficulty preparing timely and accurate year-end financial statements. As a result of our audit, ACAD made material audit adjustments totalling $1.4 million. ACAD did not:

- produce accurate financial statements or working papers within scheduled timelines during this year-end
- incorporate quality control into the financial statements process to ensure working papers were accurately prepared and properly reconciled to draft financial statements and the financial records
- ensure a process existed for adequate variance analysis of financial results and balances

Good practices and considerations

Policies and procedures support information

Once institutions have determined users' needs, they should have clear policies and procedures for providing that information. These policies and procedures help institutions to report reliable information promptly to users, while considering the cost benefit of providing it. More precise monthly and quarterly information normally requires more resources, at higher costs, and might delay providing timely information.

Considerations and good practices

Institutions struggling with preparing timely and accurate financial information and year-end financial statements could benefit from the following good practices:

- **clearly defined roles and responsibilities**—Financial and operational staff must understand their roles and responsibilities for financial reporting. Operational staff are accountable for results and related financial data.
- **staff training**—All staff involved in financial reporting, whether central finance staff or operational staff, involved in financial reporting need sufficient training on the institution's policies and procedures over financial reporting. These staff should clearly understand how to process transactions and understand their impact on the financial reports.
- **well-defined chart of accounts**—This allows institutions to classify transactions in such a way as to allow them to prepare the necessary financial information for users, including the year-end financial statements. For example, institutions can prepare financial information by individual departments or by a faculty consisting of different departments.
- **use materiality limits**—Institutions can set a materiality level to determine level of accuracy required for monthly and quarterly financial statements. For year-end financial statements, the level of accuracy is more precise and requires more adjustments to ensure the year-end financial statements are accurate.
- **use estimates**—Using estimates in preparing monthly or quarterly financial information may improve the timeliness of financial information.
- **use standard tools**—Institutions can use different tools to ensure their processes are efficient and effective. Such tools include standard reconciliation templates and checklists for periodic and year-end reporting that specify the detailed tasks, the responsible person, and the dates by which to complete the tasks.
- **monitoring and quality control processes**—Institutions need effective quality control processes to ensure the financial reports are reliable and timely. This includes independent reviews of reconciliations, journals, draft financial reports, and clear explanations for significant variances.
- **information technology**—Most Institutions use MS Excel or MS Word to produce financial reports and year-end financial statements. Some have implemented specialized reporting software to create the financial report automatically. This increases the reliability, efficiency and timeliness of financial reporting. The monitoring and control processes should also apply to all information technology used for financial reporting.

3. Systems over costs for internal working sessions and hosting guests

What we examined

Initial concerns raised at Grant MacEwan

As part of our financial statements audit at Grant MacEwan University, we noted some concerns over costs identified during our review of expense claims and procurement cards for all senior management, and a sample of other staff. We recommended that the University implement clear policies for internal working sessions and hosting guests.

We extended work to other institutions

We decided to extend our work to other institutions to determine if similar issues exist and to identify practices that could be shared with other public post-secondary institutions. We decided to focus this work on only select members of senior management, the board chair and the executive or administrative assistant to the president. We examined the following institutions to determine if they have effective systems for hosting and working sessions, staff recognition, sponsoring events and making donations:

- University of Alberta
- University of Calgary
- Grant MacEwan University
- Southern Alberta Institute of Technology
- Red Deer College
- Lakeland College

What we found

Costs for internal working sessions and hosting guests

Generally had well-defined policies, some improvements needed

Institutions generally had well-defined policies for costs related to internal working sessions and hosting guests, except for the University of Calgary and Red Deer College. While institutions generally complied with their respective policies, this report highlights the areas where they need to improve their systems and ensure staff comply with policies.

Grant MacEwan University implemented a new hosting and working sessions policy in December 2009 in response to a recommendation we made in October 2009. While the new policy restricts liquor to special events, it is still unclear what would be considered reasonable costs for liquor or meals, what are special events and if activities such as golf are allowed.

All public post-secondary institutions in Alberta might benefit from considering these issues and determining whether they have effective policies and processes that ensure compliance with legislation, and that costs, paid by public funds, are reasonable to an impartial observer.

The following summarize our overall conclusions, recommendations and summary of issues by institution.

Grant MacEwan University

Overall conclusion

Grant MacEwan University has implemented a policy for hosting and working sessions, in response to our October 2009 management letter. However, the University needs to clarify what are acceptable expenses under this policy, and implement effective processes to ensure staff comply with the policy.

Recommendation

We recommend that Grant MacEwan University:

- **implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests**
- **follow its policies and processes for employee expense claims and corporate credit cards**

Unclear if expenses allowed and reasonable

During our financial statements audit of Grant MacEwan University, we found it did not have effective policies and processes to guide staff and board members on acceptable and reasonable practices for hosting people external to the University, for internal working sessions, and board meetings and retreats. For example, a senior management employee used the University's credit card to pay:

- $342 for green fees at a golf course for four staff, during a staff planning retreat attended by 17 staff—This was not an event for hosting people external to the University; it involved only University staff.
- dinner costs of $1,200, including $327 for liquor, for 14 staff at a restaurant during the same staff retreat. The average cost was $85.71 per person.

Without clear policies and guidance, it is unclear if these costs are acceptable and reasonable. As an example of clear guidance, Northern Lakes College policy states that costs for meals during internal working sessions must not exceed the per diem meal rates set out in the travel expense policy.

New policy, but further improvements needed

The University approved a new policy in December 2009. While the new policy provides guidance on hosting and working sessions, and restricts the purchase of liquor to hosting guests and special events, the new policy does not:

- provide guidance on what would be considered reasonable costs for liquor
- provide clear guidance on what are considered special events

- clearly state if certain costs such as golf involving only University staff are an allowable expense
- clearly state that itemized receipts are required

Non-compliance with policies

The President approved the credit card statements assigned to the Senior Manager, Board Operations which included certain expenses related to the President. The policy requires the Board Chair to review and approve costs relating to the President.

University of Calgary

Overall conclusion

The University of Calgary has systems to review and approve expense claims and credit card transactions. However, the University needs to significantly improve its systems related to internal working sessions and hosting guests.

Recommendation

We recommend that the University of Calgary:

- **implement policies and guidance on appropriate expenses for internal working sessions and hosting guests**
- **follow its policies and processes for employee expense claims and corporate credit cards**

Policies unclear what are acceptable and reasonable for internal working sessions and hosting guests

The University has a travel and related expense policy for costs incurred while travelling on University business. However, the University does not have hosting or working session policies and procedures to guide staff and board members on acceptable and reasonable practices for board meetings, internal working sessions and retreats and for hosting people external to the University such as guests or potential donors. While the University has a policy prohibiting the purchase of liquor with research funds, it lacks a policy stating whether purchasing liquor is appropriate from non-research funds.

Missing itemized receipts and inappropriate approvals

Two senior management staff submitted credit card receipts and hotel statements, without itemized receipts as required, for meals and other expenses totalling $11,176. Included in this was one month's expense claim for $4,023 that did not include any itemized receipts as required. In addition, the University's policy requires expense claims to be approved by one administrative level higher than the claimant. We found the president's executive director approved the vice presidents' expenses. The policy requires the president to approve the vice presidents' expenses.

Red Deer College

Overall conclusion

Red Deer College generally had well-designed systems to review and approve expense claims and credit card transactions. Where policies exist, staff generally complied with the policies and processes, but there were some weaknesses.

Recommendation

We recommend that Red Deer College:

- **implement policies and guidance on appropriate expenses for internal working sessions and hosting guests**
- **strengthen its processes to ensure staff follows its policies and processes for employee expense claims and corporate credit cards**

Policies unclear on acceptable and reasonable expenses for internal working sessions and hosting guests

The College has a travel and related expense policy for costs incurred while travelling on College business. However, the College does not have a hosting or working session policies and procedures to guide staff and board members on acceptable and reasonable practices for board meetings, internal working sessions and retreats and for hosting people external to the College such as guests or potential donors. In one case the College paid $122 and in another case $319 for liquor for two internal working sessions. But the College lacks a policy stating whether purchasing liquor is allowed.

Non-compliance with policies

The previous President approved the credit card statements assigned to the Director, Board and Executive Operations, which included four expenses related to the previous President. The policy requires the Board Chair to review and approve costs relating to the President.

University of Alberta

Overall conclusion

The University of Alberta has well-designed policies and processes to review and approve expense claims and credit card transactions. Staff generally complied with the policies and processes, but there were some exceptions.

Recommendation

We recommend that the University of Alberta follow its policies and processes for employee expense claims and corporate credit cards.

Good practice

The University has clear travel and related expense policy for costs incurred while travelling on University business, and has clear hosting and working session policies. These policies require staff to submit itemized receipts and describe the purpose of the events and list the attendees. They also allow the purchase of liquor when hosting guests or potential donors, but limit the

amount of liquor that will be reimbursed. They prohibit the purchase of liquor for internal working sessions.

Missing itemized receipts and insufficient approvals

Staff did not provide itemized receipts for restaurant bills totalling $6,100 as required by the University's policies. In addition, the policy requires the Chair of the Board Audit Committee and the Provost to approve the Board Chair's expenses. However, the Provost was normally the only person who approved the Board Chair's expenses.

Southern Alberta Institute of Technology

Overall conclusion

Southern Alberta Institute of Technology generally had well-designed systems to review and approve expense claims and credit card transactions. Staff complied with the policies and processes, however, there was a minor recommendation. We recommended that Southern Alberta Institute of Technology clarify its policies and guidance on appropriate expenses for events related to internal working sessions and hosting guests.

The Institute has a clear travel and related expense policy for costs incurred while travelling on Institute business. The Institute does have a hosting expense policy, however the policy should clarify whether purchasing liquor is allowed, and if allowed, guidance on what would be considered reasonable. The Institute followed its policies and processes for the samples we reviewed.

Lakeland College

Overall conclusion

Lakeland College generally had well-designed systems to review and approve expense claims and credit card transactions. Staff generally complied with the policies and processes, however, there was a minor recommendation. We recommended that Lakeland College follow its policies and processes for employee expense claims and corporate credit cards.

Good practice

The College has a clear travel and related expense policy for costs incurred while travelling on College business, and has clear hosting and working session policies. These policies require staff to submit itemized receipts and describe the purpose of the events and list the attendees. They also allow the purchase of liquor when hosting guests or potential donors, but limit the amount of liquor that will be reimbursed. They prohibit the purchase of liquor during internal working sessions.

Non-compliance with policies

We found that the College generally complied with its policies, except for the following issue—we did not find pre-approval for 21 of the accommodation costs in excess of $130 as required; however, the costs were valid and reasonable.

Other issues identified during our audits

Processes needed for gift cards to comply with *Income Tax Act*

We also recommended that the University of Alberta, University of Calgary, Grant MacEwan University, SAIT, Red Deer College, and Lakeland College improve their processes to comply with the *Income Tax Act*'s requirements for issuing gifts and awards to staff. They did not have good processes to identify payments for gift cards to include them in employees' taxable benefits. For example, a vice president at the University of Calgary received a $1,000 gift certificate upon his departure from the University. This amount was not included as a taxable benefit as required.

Good practice

As an example of clear policies and processes, the University of Alberta prohibits gifts of cash and liquor, and plans to update its policies prohibiting gift cards and gift certificates, thereby eliminating the need to implement processes to identify and track these types of payments. In reviewing their policies and processes, public post-secondary institutions also need to consider the impact of changes that the Canada Revenue Agency made to its policy for gifts and awards effective January 1, 2010.[4] This requires employers to include in employees taxable benefits gifts greater than $500 during a year per person, and clarifies the requirements for long-service awards.

No policies to sponsor events and make donations

In addition, we also recommended that the University of Calgary, Grant MacEwan University and Lakeland College implement clear written policies and procedures for sponsoring events and making donations. While SAIT and Red Deer College have policies prohibiting political contributions, they did not have clear written policies covering non-political sponsorships and making donations. While institutions may not sponsor events or make donations regularly, they could still benefit by developing clear written policies to manage these sector issues if they face them at a future date.

Good practice

As an example of well-defined policies, the University of Alberta has clear policies on gifts, awards, making donations and sponsoring events. The policies also provide guidance on making donations and buying tickets for political fundraising events to ensure the University complies with the *Income Tax Act* as a registered charity, and with the *Election Finances and Contribution Disclosure Act*.

---

[4] http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/gfts/plcy-eng.html

4. Preserve endowment assets

Grant MacEwan University

Recommendation

We recommend that Grant MacEwan University improve its endowment and related investment policies and procedures by:

- **establishing and regularly reviewing a spending policy for endowments**
- **improving its processes to review its endowment related investments**
- **improving its reporting of investments and endowments to the audit and finance committee**

Southern Alberta Institute of Technology

Recommendation

We recommend that SAIT clarify its expectations for preserving the economic value of its endowment assets and document an endowment policy for managing endowment earnings.

Background

Last year, we recommended that ACAD, Grande Prairie Regional College, Keyano College, Lakeland College, Lethbridge College, Medicine Hat College, Mount Royal University, Norquest College, Olds College, Portage College and Red Deer College define their goals for the use and preservation (inflation proofing) of the economic value of endowment assets.

$100 million of endowments

Preserving economic value

Public colleges, institutes, Grant MacEwan University and Mount Royal University in Alberta, collectively have about $100 million of endowment funds in long-term investments. Earnings from endowment investments support education, research and teaching. Each year, institutions limit spending of endowment earnings to a percentage set out in policies. Investment managers normally manage institutions' endowment funds in accordance with policies and investment objectives set by the institutions' investment committees. While some donors encourage spending all endowment investment earnings, other donors expect institutions to preserve the real value of endowments over time.

Criteria: the standards we used for our audit

Institutions should establish goals and performance measures for the preservation of endowments and have appropriate administrative policies and processes to help meet their goals.

Our audit findings

This year, Keyano, Lakeland, NorQuest, Portage and Red Deer colleges implemented the recommendation by updating their endowment policies. The other institutions are still working on updating their policies. In addition, we also made recommendations to two institutions—Grant MacEwan University and Southern Alberta Institute of Technology.

Issues at Grant MacEwan University

At June 30, 2009, Grant MacEwan University had approximately $26 million in endowment principal. It had endowment related investments of $23.3 million ($15.5 million with its investment manager and $7.8 million in a business chequing account, which is used to pay awards). At June 30, 2009, the University had spent some of the endowment principal, partly due to lower investment income due to the economic downturn in 2008–2009. Management told us that the University annually spends approximately $700,000 from the chequing account on awards. But, the $7.8 million represents the endowment principal that donors expect should be preserved. In addition, the University did not have a formal policy on the use and preservation of endowments. It also did not monitor the chequing account to determine if the funds were invested appropriately. At June 30, 2009, the account earned approximately 0.36%, while the government's consolidated cash investment trust fund earned 1.22%.

SAIT has unclear goal for preserving endowments

SAIT did not have clear goals for preserving the economic value of endowments, clearly defined practices for managing endowment investment earnings and did not have specific endowment spending policies.

5. Information technology control framework—progress report

Previous reports

In our *April 2008 Report* (page 195), we recommended that the Department of Advanced Education and Technology give guidance to public post-secondary institutions on using an IT control framework to develop control processes that are well-designed, efficient and effective. In our *April 2009 Report* (page 80), we provided an update to management and institutions progress to develop an IT control framework. With the introduction of the Campus Alberta Strategic Directions Committee, we restate the recommendation that the Department of Advanced Education and Technology, through this Committee give guidance to public post-secondary institutions on using an IT control framework to develop control processes that are well-designed, efficient and effective.

Background

IT control framework gives assurance

Well-designed and effective IT control processes are the best way to preserve the security and integrity of an institution's information and systems. A comprehensive IT control framework should be a critical part of every institution's internal control program to mitigate risks and should:

- protect the confidentiality and security of information
- ensure that systems are available when needed

COBIT a recognized international standard

An IT control framework, such as Control Objectives for Information and related technology (COBIT),[5] is a key element in developing and ensuring that there are proper controls over an organization's information and the systems and processes that create, store, manipulate and retrieve important data. COBIT has 34 high-level objectives and 211 individual control activities. It gives senior management and IT users generally accepted measures, indicators, processes and best practices to maximize IT benefits and minimize risks.

It may be unreasonable for all institutions to implement all these controls. Instead, institutions should determine and implement the relevant controls to manage the risks appropriately.

Management's actions

The Department's management:

- continued to work with all institutions to develop an information technology management controls policy and framework (ITM framework) that institutions can adopt and modify
- conducted multiple planning and awareness sessions with institutions' IT personnel, senior academic officers, senior business officers, FOIP coordinators and records managers
- continued to work with institutions to provide guidance to assess and implement reasonable policies, procedures and standards, and controls to support the ITM control framework
- provided ongoing reporting of institutions' participation and updates for the five projects for Year 1 of the ITM Control Framework Program

[5] COBIT is an industry-recognized best practice IT control framework developed and maintained by the Information Technology Governance Institute.

RECOMMENDATIONS TO INDIVIDUAL INSTITUTIONS

1. Grant MacEwan University

Initiatives started to improve control environment

The University[6] has started several initiatives and has taken several preliminary steps to improve its control environment, systems, processes and staff issues. In our *April 2009 Report* (page 81), we indicated that they had an ineffective control environment for an institution of its size: we had reported a number of significant weaknesses over the last few years, and they had two alleged frauds and five instances of irregularities over the last two years. As a result, the University:

- started a project to review and update its policies—the University plans to complete this over the next year
- started a project to implement a new enterprise resource planning system for financial, human resources and student information—the project is budgeted at $22 million and the first phase is targeted for implementation by July 1, 2010
- created and filled the position of associate vice president corporate services to oversee certain aspects of corporate services
- created and filled four new assistant dean positions, one for each faculty, responsible for budget, financial and human resources processes and controls—they will work with financial services on these areas

Control environment still needs improvement

These are positive steps to resolve its information systems, processes and staff issues. However, the University must still ensure it implements well-designed processes, trains staff on the policies and processes, and monitors if staff adhere to the policies and processes. This year, we highlight other areas that the University must resolve in addition to the previous issues noted, in order to have a more effective control environment. Sections 1, 2, 3 and 4 at the beginning of this chapter (starting on page 158) also highlight recommendations we made to the University, along with other institutions who had similar issues.

[6] By Order in Council (O.C. 481/2009 September 24, 2009) Grant MacEwan College's name changed to Grant MacEwan University.

1.1 Improve and implement University policies

Recommendation No. 18

We recommend that Grant MacEwan University improve its control environment by implementing or improving:

- **a code of conduct and ethics policy and a process for staff to acknowledge they will adhere to its policies**
- **a process for staff to annually disclose potential conflicts of interest in writing so the University can manage them proactively**
- **a safe disclosure policy and procedure to allow staff to report incidents of suspected or actual frauds or irregularities**
- **a responsibility statement in its annual report to acknowledge management's role in maintaining an effective control environment**

Background

Policies sets tone of control environment

Policies that define acceptable business practices and standards of behaviour help an organization guide employees and influence the tone of its control environment.

Criteria: the standards we used for our audit

The University should have an effective control environment. This includes sufficient policies and procedures to set standards for behaviour and ethical values of employees who make decisions that affect the management of the University.

Our audit findings

Updating its policies

The University started a project to review and update its policies, some of which are outdated. We reviewed the current policies and supporting procedures to ensure the University has sufficient policies and procedures, communicates them to staff and provides training when appropriate. We also reviewed some of its draft policies. Our report highlights several areas where the University can improve its systems.

Code of conduct and ethics policy

No code of conduct on University business

The University's code of ethics policy for faculty members deals with academic matters. However, the University does not have a code of conduct and ethics policy that describes the principles, values and standards to guide the decisions and actions of all University employees. Good practices around code of conduct and ethics include having a clear policy, communicating it to staff and providing training to them, and having staff annually acknowledge that they understand and agree to adhere to the code.

Conflict of interest policy

Should manage potential conflicts of interest more proactively

The University's conflict of interest policy requires employees to disclose any conflicts of interest, real or perceived when such situations arise. However, there is no requirement to declare annually in writing any potential conflicts of interest to allow the University to understand potential conflicts and to manage them appropriately. The University has not assessed the frequency of reports or set standards for who should report perceived or real conflicts of interest based on the likelihood of related risks. For example, some Alberta institutions require staff who are authorized to sign contracts or buy goods and services to annually declare their own and their immediate family members' interest in or office in a company that is a proprietorship, partnership or corporation. This allows the institution to manage real or perceived conflicts of interest proactively.

Fraud and irregularities policy

Improvements needed for fraud and irregularities policy

The University can improve this policy and related procedures by addressing the following issues. The policy requires reporting suspected fraud and irregularities involving all levels up to and including the vice president corporate services, but does not require reporting suspected fraud and irregularities involving the president or other senior management, except the vice president corporate services. Some institutions allow staff, students and contractors to report suspected fraud and irregularities involving all senior management to the chair of the audit committee.

Management responsibility declaration

No public acknowledgement for responsibility of controls

For public institutions, annual reports are an important way to hold senior management accountable for their control and use of public resources. Organizations with good governance include a statement in their annual reports acknowledging management's responsibility to maintain effective controls. The chief executive officer and chief financial officer signs this statement. The University's annual report does not include such a declaration.

We recognize that the University follows the Department of Advanced Education and Technology's annual report standards. However, Alberta's other universities and technical institutes include such a declaration in their annual reports. In our *October 2009 Report* (page 144), we recommended that the Department improve its annual report standards by requiring all post-secondary institutions to include such a declaration. The Department has updated its standards to require this declaration, but the University has not yet implemented this standard.

Implications and risks if recommendation not implemented

Without an effective control environment, employees might fail to understand the University's expectations of acceptable behaviour and conduct and might make decisions and act in a manner that is not consistent with the University's ethical values.

1.2 Adhere to signing authority limits

Recommendation

We recommend that Grant MacEwan University improve its processes to ensure appropriate staff with proper signing authority approve contracts and purchases.

Background

Procurement policies set authority limits

The University has a procurement and contract policy that defines purchasing practices and processes to ensure that material, services and capital assets acquired meet the University's quality requirements at competitive prices. The University's procurement and contract services department is responsible for the procurement of all materials and services of the University.

Criteria: the standards we used for our audit

The University should have effective systems to ensure appropriate individuals with proper signing authority approve purchases and contracts.

Our audit findings

Three instances of non-compliance identified

We found three instances where staff approved purchases without appropriate signing authority, contrary to the University's procurement and contract policy:

- The director of sport and wellness approved a three-year contract valued at $300,000, to provide medical services to students. His signing authority limit is $100,000. Under the policy, the vice president of student services, or vice president of corporate services should have signed the contract.
- the chief information officer, instead of the provost and executive vice president academic, approved a purchase of $878,868 for computers. The CIO signing authority limit is $250,000. While we recognize that the Board approved an overall budget for the project, we would still expect management to properly approve individual purchases according to its signing authority.
- an assistant dean, instead of the dean, approved a purchase of $102,666 for the theatre's sound system. The assistant dean's signing authority is $100,000.

Implications and risks if recommendation not implemented

Without effective controls to ensure appropriate individuals approve purchases and contracts within their signing authority, the University might not obtain value for money, or might expose the University to increased risks of inappropriate expenses.

1.3 Enterprise resource planning system

New ERP being implemented

Grant MacEwan University is implementing a new enterprise resource planning (ERP) system. The ERP renewal project uses Oracle's PeopleSoft suite of financial, human capital management and campus solutions. The University contracted with a consortium of IBM, Oracle and uDigit to facilitate the design and implementation of the system.

Budgeted at $22 million

The project began in July 2009 and is in its initial planning phase. The University plans to implement it in phases, with the first phase of the new financial module scheduled for July 2010 and full implementation scheduled for February 2011. The ERP project, originally budgeted at $15 million, is now budgeted at $22 million.

Also re-engineering business processes

In addition to the PeopleSoft tools being implemented, the overall project scope includes standardization of college business processes, enhancement of self-service offerings for students and employees, organizational change management, implementation of an enhanced technology infrastructure for the new system and the initial rollout of a business intelligence service for human resources, finance and student information.

What we did

Scope of work

Our audit was limited to a review of the request for qualification (RFQ) process, request for proposal (RFP) process and initial project planning activities. The project was in its start-up phase when we did the audit. We have also reviewed the project's proposed governance structure, business case, high-level project plans and schedule, high-level risk assessment and the RFP vendor evaluation process.

We will continue to monitor project progress. When detailed project plans are available, we will test the effectiveness of project and quality assurance controls.

What we found

Our findings

- The RFQ and RFP process is well documented, business and technical requirements are clearly defined, evaluation results and executive management signoffs are evidenced. Results of this process are also captured in the project's business case document.
- The project's governance structure includes University executive and senior management representation for those business units affected by this initiative. As well, the University's strategic project office is involved to ensure that vendor standards are in line with University standards.
- The high-level risk assessment and project plans are preliminary; the University expects they will evolve with more detail as the project progresses.
- IBM and Oracle will provide internal program quality assurance and project health checks as part of their vision to value methodology to implement the new ERP. However, management cannot solely rely on their assessments as independent, because of their direct project involvement. As well, IBM is not responsible for the entire project scope and implementation plan.

1.3.1 Implement a quality assurance program for enterprise resource planning project

Recommendation No. 19

We recommend that Grant MacEwan University develop and implement a quality assurance program for its enterprise resource planning renewal project.

Background

Project has significant impact

This project will have a considerable effect on the operations of the University; it will also require significant monetary investment. Therefore, the University needs to ensure that all project parties, including contracted vendors, are delivering high-quality solutions to meet the University's needs.

Policy requires quality assurance over significant projects

The University's IT project standards state that it would implement a quality assurance program for significant IT projects. An effective quality assurance program will help ensure that all parties involved—including contracted vendors—are delivering high-quality solutions to meet the University's needs. A quality assurance program gives the oversight committee assurance that an entity's standards and controls, which ensure systems are implemented on time, on budget, and meets users' needs, are well designed and adhered to throughout the project's life.

Criteria: the standards we used for our audit

The University should have an effective quality assurance program to assure the existence and effectiveness of its controls for the ERP project, including program governance, project management, performance management and program delivery.

Our audit findings

Some reviews conducted

The University hired:

- Gartner Consulting to assess the current state of the University's ERP systems
- KPMG to perform an initial review of the ERP project's implementation plan

No quality assurance program over project

However, we were unable to find sufficient evidence that the University has a well-designed quality assurance program for its ERP project. An ad hoc approach to obtaining assurance over the ERP project is inadequate to provide ongoing assurance to the board, senior management and the project's governance committees that the ERP project can achieve its stated goals and objectives and that the University manages risks effectively.

Implications and risks if recommendation not implemented

Without an effective quality assurance program, project risks that could affect the ERP project's scope, schedule and budget might go undetected. The ERP project might be delayed or not provide the desired capabilities, resulting in the University being unable to effectively provide programs and services to students and staff.

1.4 Sports and Wellness—implemented

Previous issues

In our *April 2009 Report* (page 83), we recommended that Grant MacEwan University establish policies and procedures for issuing complimentary memberships and discounts for use of the Sports and Wellness Centre facilities and improve its system to control and safeguard cash collected at sporting events.

The University:

New procedures for complimentary memberships

- established adequate procedures and criteria to issue, authorize and monitor complimentary memberships, complimentary registrations and complimentary guest passes for use of the Sports and Wellness Centre facilities. The marketing manager reviews several exception reports daily, to identify anomalies, and the senior manager will review annually all complimentary memberships given out during the year.

Reduced risk of cash handling

- decided that admission to all sporting events, except for national games, will be free starting from the fiscal year 2009–2010. As a result, the risk associated with cash handling is reduced. In addition, the safeguarding of the cash is improved, as all cash boxes are stored in a locked room and the keys are now under dual custody.

1.5 Sub-ledger reconciliations—implemented

In our *April 2009 Report* (page 84), we recommended that Grant MacEwan University complete sub-ledger to general ledger reconciliations promptly. The University promptly prepared and approved the monthly sub-ledger to general ledger reconciliations for both accounts payable and accounts receivable.

1.6 Bookstore operations and forensic investigation—progress report

Previously reported forensic investigation on bookstore

In our *April 2008 Report* (page 186), we identified several weaknesses in the bookstore policies and procedures, and recommended that Grant MacEwan University improve its systems to manage and report inventories, and monitor and account for the use of petty cash. In that same report, we reported that in September 2007, management told us of a forensic accounting investigation they were performing into management of various stores. Initially, the investigation focused on $30,000 missing from the petty cash funds. The University hired an outside accounting firm to assist in the petty cash portion of the forensic investigation. During the early stages of this investigation, the firm identified other areas of potential wrongdoing for examination.

Suspected $30,000 fraud.

Initial process to investigate

Financial Services initially oversaw the investigation, as the University's risk management position was vacant. During the first half of 2008, the University submitted additional documents to its insurance company to support their claim of losing $30,000, and submitted documents to the Edmonton Police Service to conduct a criminal investigation. The consultant recommended that the University extend its investigation, but the University decided not to extend it.

Found suspected fraud of about $97,000

In May 2008, the University filled the risk management director's position. In October 2008, risk management became responsible to oversee the investigation. Risk management became suspicious of false refunds issued at the bookstore. Certain bookstore employees, including the manager, are able to issue refunds. At July 31, 2009, the University concluded its investigation and found approximately $97,000 of suspected fraudulent transactions covering petty cash, inventory, refunds and expense claims.

Control issues remain

We are satisfied with the steps the risk management group has taken with this investigation. While we recognize that police investigations and court processes take time to complete, the University's investigation and control

improvements are under its control. However, we believe it is unreasonable that the University spent approximately two years after it first became aware there was a problem to finalize its investigation and control improvements. For example, as part of our IT audit of the bookstore system in June 2009, we also identified that all bookstore staff have access to issue gift cards in the non-point-of-sale system, using a shared user ID and password. This allowed bookstore staff to collect cash, issue a gift card and delete any trace of the transaction ever taking place. The University was not aware of this and there were no compensating controls to eliminate the risk. We would have expected management to deal with a forensic accounting investigation and all control improvements more promptly.

2. Alberta College of Art and Design

2.1 Bookstore operations

Recommendation

We recommend that Alberta College of Art and Design maintain an effective system of internal controls to enhance the integrity of its bookstore operations.

Background

Bookstore annual sales approximately $1 million

The Alberta College of Art and Design sells textbooks and other supplies in its bookstore. The director of facility and ancillary services oversees the bookstore operations. The bookstore uses a custom-made information technology system to manage inventory, sales and purchases. The annual bookstore sales are approximately $1 million.

Criteria: the standards we used for our audit

The College should have effective internal controls systems within the bookstore operations to safeguard the College's assets. This includes inventory counts supported by an inventory control system, proper segregation of duties for processing transactions, and sufficient policies on pricing, refunds, and write-offs.

Our audit findings

We noted the following internal control deficiencies at the bookstore:

Inventory on-hand not compared to system

- **inventory control**—While bookstore inventory counts are performed annually, the inventory count results are not compared or reconciled to the inventory balance recorded in the database. The inventory balance recorded in the College's database balance is instead disregarded, and substituted by the inventory quantities and values determined from the inventory count. As a result, management cannot detect or investigate errors and irregularities that might have been committed with respect to the

inventory records. We noted that inventory worth $29,800 was written off during the year.

No policies for refunds

- **policies and procedures**—The College does not provide guidelines on which items can be accepted as return items, periods within which returns can be accepted and conditions in which returns can be processed. The cashier uses his or her discretion to decide which items can be returned. The returned goods are not inspected by anyone other than the cashier processing the return. Further, we noted that while the bookstore supervisor provides authorization for debit and credit card returns (by swiping an authorization card in the machine), this card is at times given to the cashier when the supervisor is away. By doing this, the bookstore supervisor grants the cashier the ability to authorize and process returns transactions without the review or approval of another employee.

No standard price lists

- **sales prices**—There are no guidelines for determining product mark-ups or price lists for textbooks and supplies. Staff enter sales prices in the system as purchases are made and can be altered by any employee without requiring the review or approval of another employee.

Excessive system access for staff

- **system access**—All bookstore employees have unlimited access to the database that supports the bookstore operations. Each employee has the capability to individually initiate and complete the processing of virtually all transactions, primarily those transactions involving sales and receiving, without the approval or authorization of another employee. In addition, all bookstore employees use the same password and username to log onto the system, the cashier tills and any of the bookstore's computers. Management cannot effectively track work processed in the system to detect transactions that employees might have processed beyond their authorized limits.

Access to cash not restricted

- **safeguarding of cash**—There are inadequate controls to prevent unauthorized access to assets that are highly susceptible to theft or misappropriation. In particular, we noted that four full-time bookstore employees and various casual staff have access to the safe where the cash receipts and petty cash float is stored.

Implications and risks if recommendation not implemented

The absence of an effective internal control system impairs the integrity of transactions processed in the bookstore system and exposes the College to a risk of loss of assets, through fraud and theft.

2.2 Journal entries

Recommendation

We recommend that Alberta College of Art and Design:

- **ensure journal entries entered into the financial system are independently reviewed and approved**
- **develop a policy that defines the process for recording and approving journal entries and the documentation required to support the entry**

Background

Use of journal entries

The College uses journal entries to reclassify items, correct errors or record transactions not generated automatically by the accounting system. Journal entries can also be used to process invalid or inappropriate transactions because they may circumvent other control processes.

Criteria: the standards we used for our audit

The College should ensure that it has effective controls over journal entries by segregating the functions for preparing and approving the journal entry.

Our audit findings

No independent review of journal entries

There are two employees in the finance department that can enter and post manual journal vouchers in its accounting system. The College does not have a process to independently review and approve manual journals. Although we did not discover any inappropriate journal entries, 7 out of the 20 journal entries selected for testing did not bear any evidence of review. Two journal entries to record tuition fees to the general ledger did not have the appropriate supporting documents.

Implications and risks if recommendation not implemented

If the same person can initiate and approve transactions, inappropriate or incorrect entries might be entered, increasing the risk of fraud and inaccurate financial information.

3. Olds College

Improve bookstore sales and inventory controls

Recommendation

We recommend that Olds College improve internal controls in the bookstore relating to sales and inventories.

Background

Bookstore annual sales approximately $787,000

The College's bookstore is responsible for purchasing, selling, managing inventories, and recordkeeping for books and other educational related items for the College. The bookstore performs a vital function for the delivery of books and related educational items to students along with generating ancillary revenues for the College. Total revenues from the bookstore for the year were approximately $787,000.

Criteria: the standards we used for our audit

The College should have effective internal controls and processes over bookstore sales, purchases, inventory management and recordkeeping. This includes restricting access to assets and records, segregating duties for reconciliations, handling cash and making orders.

Our audit findings

Issues noted

We found the following internal control deficiencies over the College's bookstore operations:

- no segregation of duties involving cash—All bookstore employees are allowed to perform daily cash reconciliations, handle cash at the till and make deposits. This restricts effective cash stewardship and recordkeeping.
- no restricted access to the master price list—All bookstore employees have access to make changes to the master price list. This restricts maintaining the integrity of data.
- no sales till operator identification—The till tapes do not identify which bookstore employee makes each specific sales transaction. This restricts maintaining accountability of staff for individual transactions.
- no reconciliations of inventory count to records performed—No investigations are done for inventory discrepancies to ensure accuracy. This restricts maintaining accurate inventory records and performing detailed analyses for different types of inventory movement throughout the year.

Implications and risks if recommendation not implemented

Without appropriate internal controls in place at the bookstore, manipulation of sales and inventory data can take place and go undetected for a significant amount of time. This increases the risk of fraud and theft against the College.

4. Red Deer College
Control over payroll processes
Recommendation

We recommend that Red Deer College improve its controls over payroll.

Background

Payroll most significant expense

Salaries and benefits are the largest operating expenditures of the College ($54 million 2008–2009). The College processes its payroll through a module of its Banner financial system. The College has concentrated access and responsibility for the payroll module in its payroll unit. The College's payroll unit, consisting of a manager and three other staff, has authority and responsibility for most functions within and around the payroll module, and has custody of employee personnel files.

Required good controls

A common feature of a good internal control system is to have one person initiate a transaction or change system data, and have a different person approve the change. This is to prevent any one employee being able to process fraudulent transactions or make inaccurate or inappropriate changes to the system without the assistance of others.

Criteria: the standards we used for our audit

The College should segregate incompatible functions in payroll. The processing of payroll transactions should be segregated from maintenance of personnel records and pay distribution. The College should also maintain documentation that clearly shows acceptance of the terms of employment and the approved rate of pay.

Our audit findings

Inappropriate access to payroll system

Payroll staff have full access in the Banner payroll module to set up new employees, change key information such as rate of pay and banking information, enter hours worked from timesheets, process payroll transactions and remove employees from the system. Staff with this access might be able to create and make payments to fictitious employees.

Improvements needed over payroll changes

While the payroll unit has controls to ensure staff correctly enters authorized changes in the system, there is no corresponding review to ensure no unauthorized changes were made. Strong budgetary and monitoring controls would likely detect a material fraud or misstatement of payroll expenses. However, management cannot rely solely on these controls to detect all fraud or error.

Lack of signed employment contracts

For 9 out of a sample of 10 employees who commenced during the year, there was no signed contract on file showing the terms of employment, including the salary rate approved by the College, and the employee's acceptance of those terms. The College maintains unsigned electronic copies of contracts in a limited access network folder, but they might not match an actual document signed by the employee and authorized College staff.

Review of reconciliations not done

Payroll staff also prepare manual cheques for signature, distribute signed cheques and reconcile the bank statement from which payroll is processed. While there are controls around the preparation, approval and distribution of these cheques, the College could strengthen its controls by ensuring that someone outside of payroll processing reviews the bank reconciliation for the payroll account.

Implications and risks if recommendation not implemented

Inappropriate segregation of duties increases the risk that inappropriate transactions might occur, and the risk that these transactions might go undetected.

5. NorQuest College

5.1 Bookstore services—Segregation of duties in the bookstore

Recommendation

We recommend that NorQuest College implement proper segregation of duties within its bookstore services.

Background

Bookstore's annual sales and rentals about $1.6 million

The College manages the sale of books ($970,000 for 2008) and book rentals ($607,000 for 2008) through the following staff at the main campus: coordinator of business services, material control administrator, several customer service representatives and a centralized shipper/receiver.

Criteria: the standards we used for our audit

The College should have effective controls over bookstore services. This includes segregating incompatible job duties of authorizing purchases, receiving and maintaining inventory, receiving cash and preparing deposit slips, and restricting access to assets and information systems to appropriate staff.

Our audit findings

Lack segregation of duties

The College could improve its controls in the bookstore operations to ensure that the same person does not perform any incompatible duties without an independent review. For book rentals, the material control administrator

authorizes the purchase of books to be rented, and enters receipt of the book information into the financial system. He also has access to change the quantity of inventory and price of books, and to write off inventory without independent review.

We also noted that the coordinator of business services also occasionally has incompatible duties. She sometimes operates a cash register, performs daily reconciliations for the register and prepares the deposit slip without independent review. Also, having the same person receive cash and prepare a deposit slip increases the risk of theft of cash.

Implications and risks if recommendation not implemented

If the same person can request, approve, receive, edit quantity and price, and write off inventory, the risk of fraud and inaccurate financial information increases.

5.2 Internal controls over cash—implemented

Previous issues resolved

In our *April 2009 Report* (page 87), we recommended that the College improve its controls over cash received from tuition and student fees. The College eliminated its cash float system and now issues cheques for bursary cheque refunds.

6. Northern Alberta Institute of Technology

6.1 Purchasing guidelines

Recommendation

We recommend that NAIT implement processes to ensure:

- **guidance exists on the steps required to evaluate potential vendors and the documents required to evidence that a review occurred**
- **compliance with its purchasing guidelines**
- **all purchasing decisions are properly justified**

Background

Purchasing guidelines and signing limits

The Institute has purchasing guidelines that define purchasing practices and processes to ensure that material, services and capital assets acquired meet the it's quality requirements at competitive prices. The Institute's materials management department is responsible to purchase all materials and services. The guidelines state that staff must obtain three written quotations for purchases between $25,000 and $50,000, and that a sealed tender must be obtained for purchases greater than $50,000. The guidelines also outline when sole source purchasing is appropriate. The purchasing guidelines require the approval of the vice president administration and CFO for any sole source purchases.

Criteria: the standards we used for our audit

The Institute should ensure staff support purchasing decisions by proper documentation and approvals to ensure that expenditures meet the business requirements of the Institute.

Our audit findings

During our review of purchasing controls, we selected a sample of seven purchase orders to determine if staff followed the Institute's purchasing guidelines.

Support lacking for vendor selections

The Institute's purchasing guidelines do not provide guidance on the steps required for staff to evaluate potential vendors and the documents required to evidence that a review occurred. For instance, the Institute could not provide documented evidence supporting how it selected the potential vendors for each of the seven purchase orders we reviewed. Also, none of the four RFPs (request for purchase) or the RFT (request for tender) we reviewed as part of the purchase order samples had adequate documentation to support the choice of the successful bidder. Only one of the two sole-source purchases we reviewed had proper approval for the sole source.

Detailed findings

The details of our findings are as follows:

- Purchase of two campus security vehicles (total cost of $81,000)—The Institute could not provide evidence that it obtained three written quotations for this purchase. The Institute was able to provide support for its choice of vehicle brand, but was unable to support its choice of retailer.
- The sole source purchase of an educational aid (total cost of $23,000)—This sole-source purchase indicated that the approval of the vice president is not required, as the purchase was for an educational aid. While the guidelines allow sole-source purchases for educational purposes, the guidelines clearly indicate the approval of the vice president administration and CFO is still required.
- Price quote for a truck and two vans (total cost $60,000)—The Institute issued an RFP asking for price quotes for one truck and two vans. After the completion of the RFP, the Institute purchased two trucks and did not purchase any of the vans initially specified. There was no documented evidence to determine whether there was a need for the additional truck that the Institute purchased or why the Institute did not purchase the two vans. For one of the trucks, the Institute paid $1,500 more than the price quoted on the RFP. Other than the invoice, there was no documented explanation to support the additional cost.

Implications and risks if recommendation not implemented

Without adequate guidelines to direct purchasing practices, the Institute might incur expenditures that do not meet its business needs.

6.2 Review of procurement card transactions—implemented

Previous issues resolved

In our *April 2009 Report* (page 90), we recommended that Northern Alberta Institute of Technology improve its processes to review and approve staff's procurement card transactions. The Institute implemented the recommendation by:

- requiring a supervisor to review and approve all procurement card transactions that cardholders make
- developing a plan to update the procurement card policy to ensure all procedures and consequences are clear
- developing a review manual to perform reviews and audits of procurement cards—audit detailed reports are printed monthly, and reviewed for obscure payments and investigated.

6.3 Construction project management systems—implemented

What we examined

Previous issues

In our *April 2008 Report* (pages 45 to 51), we recommended that the Northern Alberta Institute of Technology:

- include conflict-of-interest provisions in construction management contracts to allow the Institute to identify, report and deal with potential conflicts of interest
- improve its sole-sourcing guidelines to require, where appropriate, adequate documentation of justification and approval for construction-contract work that is sole-sourced. We found the Institute did not properly document reasons for approving one sole-sourced contract, and the Institute's sole-sourcing guideline did not extend to sub-contractors without fixed prices contracts

Our audit findings

Now resolved

In April 2008, the Institute's Campus Development Committee revised the Campus Development Guideline to provide clear guidance and requirements on the issues we previously raised. We obtained a list of construction contracts authorized by the Institute. From that list, we sampled 30 contracts to determine if the Institute had appropriately followed its guideline for conflicts of interest and sole-sourcing. With the exception of one contract file, for which the Institute had not obtained a conflict of interest declaration, the Institute fully complied with its guideline. We conclude the recommendation has been implemented because the new processes for identifying conflicts of interest and executing sole-sourced contracts are a significant improvement.

7. Bow Valley College

7.1 Construction management

Significant construction underway

The College is undertaking a significant enhancement and expansion of its campus facilities. The College's governance council asked us to audit the construction management systems of the College in light of the current campus expansion. The construction management system we examined includes processes and procedures for budgeting, tendering, awarding and monitoring contracts, and reporting.

Audit objective for construction management systems

Our audit objective was to assess if the College has effective construction management systems. Through interviews and review of bidding documents, contracts, and monitoring reports we assessed whether the College's construction management systems are operating effectively. We did not examine the College's systems to plan and optimize the use of its existing facilities.

Effective systems exists

Overall, the College has comprehensive and well-designed construction management systems for the current campus expansion. It has the following good practices:

- The College clearly defined the project scope, including cost estimates and resources required, and detailed the specific construction activities to be performed.
- Its *Expansion Project Administration Manual* clearly defines the organizational structure and the roles and responsibilities of the project team.
- The project schedules provide adequate information to allow the construction management team to manage the project timelines and identify when critical resources will be required.
- The College has policies and procedures for tendering and selecting service providers for significant contracts. The competitive bidding practices are clearly defined through issuance of tender packages. The College followed its bidding practices when it tendered the packages.
- The College monitors the progress of its campus expansion through weekly meetings of its project management team. Each month, the project director presents a monthly status report to the Campus Development Committee who then reports to the College's governance council. Each quarter, the College submits a progress report to Alberta Infrastructure.

7.2 Contracting in the College's International Education and Workplace Training Department

What we examined

Previous Director investigated for alleged inappropriate activity

In October 2008, the Bow Valley College investigated processes used for agent contracts and fee payments because of concerns expressed by the International Education and Workplace Training Department IED staff about certain invoices created and approved by a previous director. The investigation exposed the alleged inappropriate activity by the director. The College referred the matter to the local police authority immediately following the investigation. The police authority is still investigating the matter.

Follow-up on five recommendations from 2009 report

Last year, we examined the processes and transactions surrounding the alleged inappropriate activity at IED, including a review of the College's broader internal control processes where necessary. As a result, we made the following five recommendations to the College in our *April 2009 Report*,[1] to:

- develop a process to ensure personal services contracts are reviewed before departments initiate them, to ensure they are valid
- ensure it has an appropriate personal services vendor selection method to evaluate potential vendors
- improve its controls for setting up new vendors by requiring vendor change requests be appropriately approved
- improve internal controls for processing contract payments through proper segregation of incompatible duties and proper authorization of vendor invoices
- improve processes for dealing with unethical conduct in the workplace by clearly defining and communicating to staff their responsibilities and actions in the event of such conduct

This year, we followed up the progress the College made in implementing the recommendations.

What we found

All five recommendations implemented

The College did a very good job in promptly dealing with the issues that previously existed. We found that the College has implemented all five recommendations by:

- developing a new contract template specifically for agents recruiting international students and requiring personal services contracts be generated and reviewed by Human Resources before being entered into by departments—The College followed this process for 10 agent files we reviewed.

[1] *Report of the Auditor General of Alberta—April 2009*, pp. 13–22.

- developing a standardized application and selection process to evaluate and approve potential fee-for-service agents—All pre-existing agent contracts approved by the previous IED Director were terminated effective June 30, 2009. Any of these agents wishing to continue recruiting for the College needed to reapply through a new process that requires an application package with references.
- improving controls for setting up new vendors in its Agresso financial system, including secondary approval of initial invoices received from new vendors by a designated senior manager—The College followed these processes for the vendor files we tested.
- requiring agents to prepare and submit their own invoices, which are then verified and approved by two authorized department staff—We found all invoices had been completed and submitted by the agents and all were signed by IED staff as required.
- developing the Protected Disclosure Policy and Fraud Policy, which provide staff with guidelines to identify and respond to unethical and fraudulent conduct in the workplace—Staff are now required to sign a declaration that they have read and understand these polices, at the time of their annual performance appraisal. College staff we talked to told us they were aware of, and understood, their responsibilities regarding the policies.

8. Grande Prairie Regional College Capital asset management—implemented

Previous issues

In our *April 2008 Report* (page 184), we recommended that Grande Prairie Regional College improve its processes and controls over capital assets. The College has a number of construction and renovation projects underway. The College receives a significant level of funding that is restricted for expenditure on specific capital purposes.

New processes

The College implemented processes to manage capital asset projects. It has designated a director of capital projects who is onsite everyday and oversees projects. The College reviews all expenses coded to capital projects before the director or president approve them. The College properly codes project expenses that include details such as type of cost, amount, vendor, description, and date to ensure spending can be monitored effectively.

Now maintains asset register

The College also now maintains an asset register. It includes details such as asset ID number, purchase price, depreciation, net book value, location, description and serial number. Previously, the funding source wasn't attached to assets; beginning this year, it is attached to capital asset additions in the additions schedule.

9. Lakeland College

Segregation of duties over journal entries—implemented

Previous issues resolved

In our *April 2009 Report* (page 92), we recommended that Lakeland College properly segregate the incompatible functions of preparing and approving journal entries. Since October 2008, the College's finance team ensures that different individuals enter and approve all journal entries. We tested a sample of journal entries, and found no exceptions.

10. Mount Royal University

10.1 Segregation of payroll duties—implemented

Previous issues resolved

In our *April 2009 Report* (page 93), we recommended that Mount Royal University adequately segregate duties for processing payments to casual and contract employees. Mount Royal has implemented an interim compensating control process to ensure all casual employees entered into the payroll system are properly approved prior to payment. Testing of this compensating control found it was effective. Mount Royal has also developed a new process where departments electronically initiate and approve new casual employees. This process is awaiting implementation by the IT department in fiscal 2010.

10.2 Retention and severance agreements—implemented

Previous issues resolved

In 2005, we reviewed the processes related to the decision to enter into retention and severance agreements with three vice presidents. In our *2004–2005 Annual Report* (page 100), we recommended that Mount Royal University:

- examine its governance processes to ensure that committee decisions, which are not ratifications of management decisions, be confirmed at the board level
- ensure minutes of committee meetings include all its decisions and supporting documentation

Compensation approved by Board of Governors

Mount Royal University has implemented a process whereby committee decisions related to compensation are ratified at the board level. Minutes document decisions made and include supporting rationale.

10.3 Governance and human resources committee charter—implemented

In our *2004–2005 Annual Report* (page 101), we recommended that Mount Royal University clarify in its compensation committee's charter the authority of the committee to make all compensation decisions for vice presidents.

Authority clarified

The Board of Governors approved the charter of the human resources and compensation committee that gives it the authority to set salary and benefit ranges for the vice presidents.

11. Southern Alberta Institute of Technology

11.1 Periodic budget-to-actual results analysis—implemented

Background

Previous issues

In our *2002–2003 Annual Report* (page 242), we recommended that the Southern Institute of Technology perform a monthly analysis of budget-to-actual or budget-to-forecast variances to monitor performance throughout the year In our 2005 follow-up audit, we concluded in a letter to management that the Institute had made satisfactory progress implementing this recommendation, but noted that its monthly monitoring of departments was limited to commercial services and earned revenue.

Our audit findings

Now resolved

The Institute has developed guidelines to regularly monitor department results for academic and non-academic departments and for its commercial service department. Departments must provide budget variance analysis with explanations, forecasting and forecast explanations, an executive summary and evidence of authorization. Analysts—not management—are responsible for preparing quarterly variance analyses. Management compiles and reviews their quarterly variance analysis and includes the analysts' explanations in its quarterly reports. We examined a sample of eight departmental reports and verified that all were in compliance with the guidelines.

The Institute assessed the benefits of monthly variance analyses for all departments. It concluded that executive level reports, which include a variety of performance indicators, and scheduled quarterly analysis provide adequate oversight and suitable review over departments. We agree that the Institute's current process for monitoring the performance of departments is functioning well.

Financial statements

We audited the financial statements, for the year ended June 30, 2009, of the following:

- Alberta College of Art and Design
- Bow Valley College
- Grande Prairie Regional College and its related entity, Grande Prairie Regional College Foundation

- Grant MacEwan University and its related entity, Grant MacEwan University Foundation
- Keyano College
- Lakeland College
- Lethbridge College
- Medicine Hat College and its related entity, Medicine Hat College Foundation
- Mount Royal University and its subsidiary/related entities, Mount Royal University Day Care Society and Mount Royal University Foundation
- NorQuest College
- Northern Alberta Institute of Technology and its related entities, the Northern Alberta Institute of Technology Foundation and Fairview College Foundation
- Northern Lakes College
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Our auditor's opinions on the financial statements for the above entities were unqualified.

To be reported in October 2010

Our *October 2010 Report* will include the results of the financial statement audits of the following entities that have a March 31, 2010 year end:

- Ministry of Advanced Education and Technology
- Department of Advanced Education and Technology
- Access to the Future Fund
- Alberta Enterprise Corporation
- Alberta Innovates—Bio Solutions
- Alberta Innovates—Energy and Environment Solutions
- Alberta Innovates—Health Solutions
- Alberta Innovates—Technology Futures
- University of Alberta
- University of Calgary
- University of Lethbridge
- Athabasca University

Education

Review of school jurisdiction audited financial statements and management letters

Findings and recommendations

Background

We audit one of the school jurisdictions (Northland). For those jurisdictions we don't audit, we review the management letters sent to the jurisdictions by their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors do report to management about weaknesses that come to their attention when auditing the financial statements. We also review the auditors' report on the financial statements.

There are 76 school jurisdictions comprising 63 school boards and 13 charter schools.

Our audit findings

Under Section 151 of the *School Act*, school jurisdiction auditors shall send management letters, auditor's reports and audited financial statements to the Minister by November 30, 2009. By the end of January 2010, one school jurisdiction audit was still in progress (Northland School Division). Consequently, our audit findings are based on results for 75 of the 76 school jurisdictions.

No qualified audit opinions

Auditors' reports—All school jurisdictions received unqualified auditor's report for the year ended August 31, 2009.

Two accumulated operating deficits

Financial statements—Twenty-five school jurisdictions, 20 school boards and 5 charter schools, incurred annual operating deficits for the year ended August 31, 2009 (2008—5 school boards and 3 charter schools). Annual operating deficits are acceptable to the Department of Education as long as jurisdictions have sufficient accumulated operating surpluses available to cover the shortfall. Two jurisdictions reporting annual operating deficits, Palliser Regional Division No. 26 and Valhalla School Foundation, did not have sufficient accumulated surpluses to cover their annual operating deficits.

School jurisdictions with accumulated operating deficits are expected to work with the Department to eliminate the accumulated operating deficit in accordance with a Minister approved deficit elimination plan. The Department is reviewing the nature of the accumulated operating deficits of these new accumulated deficits and is working with the jurisdictions to eliminate the deficit. Subsequent to releasing our

April 2008 Report, Rocky View School Division reissued its financial statements. The revised statements disclosed a $3.3 million annual operating surplus, rather than the $300 thousand annual operating deficit originally reported.

The total annual operating surplus of these 75 school jurisdictions combined was $15.6 million for the year ended August 31, 2009 compared to $138 million for the same school jurisdictions for the year ended August 31, 2008. The total accumulated operating surplus for these 75 jurisdictions decreased from $391 million at August 31, 2008 to $358 million at August 31, 2009. This decrease is attributable to jurisdictions using operating reserves to acquire capital assets and to transfers to capital reserves.

Areas for improvement

Management letters—The following is a summary of the audit findings and recommendations reported to 75 school jurisdictions by their auditors for the year ended August 31, 2009. This summary also includes recommendations made to Northland School Division No. 61 for the year ended August 31, 2008. We have grouped our summary into the following categories:

- financial reporting and governance
- internal control weaknesses, and
- information technology management

Users of this summary should keep in mind that the audits from which these findings came were not designed to assess all key systems of control and accountability.

Financial reporting and governance

a) ***Accounting issues***—18 jurisdictions (including 2 of the 11 reported in 2008) need to resolve accounting issues relating to non-monetary transactions, proper recording, reviewing and reconciling of journal entries, recording school generated revenue and recording of capital grants due but not received.

b) ***Board training***—0 jurisdictions (1 reported in 2008) should continue to enrol members of the Board of Trustees in seminars and courses to allow them to further their knowledge in their roles as board members and to improve financial literacy.

c) ***Board approval***—7 jurisdictions (including 4 of the 5 reported in 2008) need to ensure that board approvals are obtained for matters such as the amount of net assets to restrict, plans to spend school generated funds, board minutes and superintendent expenses.

d) ***Board oversight***—2 jurisdictions (0 reported in 2008) need to ensure that the board appoints management with financial expertise to discharge the responsibility of financial oversight and the board needs to work with management in areas such as budgeting, variance analysis and cash flow in order to maintain and strengthen overall stewardship.

e) ***Budgetary process***—2 jurisdictions (including 1 of the 3 reported in 2008) need to improve their budgetary processes.

f) ***Internal audit***—0 jurisdictions (1 reported in 2008) need to consider establishing an internal audit function.

g) ***Review of financial information***—7 jurisdictions (including 5 of the 14 reported in 2008) need to improve their review of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.

h) ***Timeliness of financial recording***—5 jurisdictions (including 1 of the 2 reported in 2008) need to ensure accounting transactions, accruals, receivables statements or financial statements are prepared or recorded on a regular and timely basis.

Internal control weaknesses

a) ***Cash management***—18 jurisdictions (including 7 of the 11 reported in 2008) need to improve cash management processes and controls.

b) ***Capital assets***—14 jurisdictions (including 4 of the 7 reported in 2008) need to improve the recording and tracking of capital assets.

c) ***Goods and Services Tax***—6 jurisdictions (including 2 of the 5 reported in 2008) need to review their processes for recording GST and remitting GST returns.

d) ***Payroll***—18 jurisdictions (including 6 of the 15 reported in 2008) need to improve controls over the accuracy of and access to payroll information.

e) ***Policies and procedures***—13 jurisdictions (including 7 of the 21 reported in 2008) need to update or implement formal procedures and policies.

f) ***Purchases***—12 jurisdictions (including 2 of the 10 reported in 2008) need to improve controls over the purchase cycle such as the review and authorization processes over purchases and payments, employee sign off for goods received and retention of supporting documentation.

g) ***Segregation of duties***—9 jurisdictions (including 2 of the 9 reported in 2008) need to have segregation of duties over the authorization and recording of transactions or the custody of and accounting for certain assets.

h) ***School generated funds***—7 school jurisdictions (including 2 of the 8 reported in 2008) need to improve the processes used to collect, record, spend and report school generated funds.

Information technology management

a) ***Computer security***—11 jurisdictions (including 5 of the 13 reported in 2008) need to improve computer security processes by having unique individual usernames and passwords, implementing a mandatory password change policy, backing up data at an offsite location and developing a Business Continuity Plan and a Disaster Recovery Plan.

b) ***Change management***—1 jurisdiction (none reported in 2008) needs to implement formal, documented procedures for managing and testing changes to system and network software or hardware.

No recommendations

For the year ended August 31, 2009, 19 management letters issued to school jurisdictions did not contain recommendations. This compares to 27 for the year ended August 31, 2008.

The Department contacts jurisdictions, where necessary, to encourage them to deal with the issues raised in the management letters, particularly recommendations repeated from prior years.

AIMCo—Internal Control Certification

Internal Control Certification at AIMCo—progress report

Background

AIMCo manages $70 billion of investments

Alberta Investment Management Corporation (AIMCo) manages approximately $70 billion of investments owned by Alberta pension plans, the Heritage Savings Trust Fund, the Alberta Sustainability Fund and other entities. In our *October 2008 Report* (No. 32—page 282), we recommended that AIMCo obtain external certification of its internal controls over investment management.

Finance prepares financial statements

AIMCo is responsible for investment management, safekeeping, and transaction recording. The Department of Finance and Enterprise (Finance) is responsible for preparing financial statements or financial statement information for most of AIMCo's investment clients. We test Finance's preparation of financial statements, investment notes and schedules and we also test processes at AIMCo to obtain enough evidence to enable us to issue unqualified audit opinions on the financial statements of AIMCo's investment clients.

We don't test all internal controls

Our audits include understanding the internal controls AIMCo uses so that we can determine the nature, extent and timing of further audit procedures. We then use a combination of audit procedures, which includes tests of internal controls that prevent errors, tests of error correction procedures and tests of investment cost and market values. However, our audits do not enable us to provide an opinion on the overall effectiveness of AIMCo's internal controls, because we do not test all controls. External certification would provide a more rigorous assessment of AIMCo's internal controls and their effectiveness in ensuring the accuracy and completeness of the investment clients' financial statements.

Management's actions

External auditors assessed AIMCo's internal controls

During 2009, AIMCo reviewed and documented its internal controls. AIMCo developed and implemented new controls where it found existing controls to be inadequate. AIMCo engaged external auditors to provide an opinion on whether the controls were suitably designed and were working on December 15, 2009.[1] The opinion included only the internal controls of AIMCo and did not include those of Finance.

[1] The opinion was prepared in accordance with the assurance standards of Section 5970 of the *Canadian Institute of Chartered Accountants (CICA) Handbook* which has two variants, CICA 5970 Type 1, which only reports on suitability of control design at a point in time, and Type 2 which reports on design suitability and operating effectiveness over a period of six months.

Report identified design weaknesses

The external auditors' report included a discussion of weaknesses in AIMCo's control design. AIMCo will be working to rectify those design weaknesses. The external auditors will then express an opinion on the suitability of the control design and whether the controls operate as intended following testing the effectiveness of the rectified controls for a six-month period in 2011.

AUDITOR
GENERAL
Alberta

Past Recommendations

Report of the Auditor General of Alberta—April 2010

Outstanding Recommendations

This is a complete list of past recommendations that are not yet implemented .

We currently have 306 outstanding recommendations—150 are numbered and 156 are unnumbered. Of the numbered recommendations, 53 are more than three years old.

We have identified the recommendations that are older than three years or that have been repeated one or more times. We use three years as a performance measure for when we expect management to implement our numbered recommendations. We recognize some recommendations will take longer to fully implement than others but we encourage full implementation within three years.

We have put an asterisk (*) beside the recommendations that management have told us are implemented. As soon as possible, we will conduct a follow-up audit to confirm those assertions.

The reports that contain these recommendations are on our web site at www.oag.ab.ca.

Advanced Education and Technology

Department

- * Non-credit programs: Standards and expectations—April 2008, #1, p. 22
- Non-credit programs: Monitoring—April 2008, #2, p. 23
- * Monitoring vocational programs offered by private institutions—April 2008, p. 42
- IT control policies and processes—April 2008, #8, p. 195
- Grant accountability—October 2009, #17, p. 142
- * Annual report standards for post-secondary institutions—October 2009, p. 144

Alberta College of Art and Design

- IT internal controls—2006–07, vol. 2, p. 21
- Financial reporting and year-end processes—April 2010, p. 160 **(repeated once since April 2008)**
- Preserving endowment assets—April 2009, p. 78

Grande Prairie Regional College

- Preserving endowment assets—April 2009, p. 78

Grant MacEwan University[1]

- Computer control environment—2004–05, p. 104 **(outstanding 3 or more years)**
- * Construction management—November 2006, #9, p. 35 **(outstanding 3 or more years)**
- * Donations—November 2006, #10, p. 37 **(outstanding 3 or more years)**
- * Bookstore operations—April 2008, p. 186
- * Parking services fees—April 2009, p. 82
- * Capital assets—April 2009, p. 85

Lakeland College

- Improve payroll controls—April 2009, p. 91

Lethbridge College

- * Preserving endowment assets—April 2009, p. 78

---

[1] By Order in Council (O.C. 481/2009 dated September 24, 2009) Grant MacEwan College's name was changed to Grant MacEwan University.

Medicine Hat College
- Periodic reporting to the Board—April 2010, p. 160 **(repeated once since April 2009)**
- Preserving endowment assets—April 2009, p. 78

Mount Royal University[2]:
- Preserving endowment assets—April 2009, p. 78

NorQuest College
- Procurement cards—discrepancy log—April 2009, p. 88
- Procurement cards-compliance with policy—April 2009, p. 89

Olds College
- Preserving endowment assets—April 2009, p. 78

University of Alberta
- * Strategic planning for Research—2003–04, p. 252 **(outstanding 3 or more years)**
- Security configuration settings—2006–07, vol. 2, p. 24

University of Calgary
- * Research measures and targets—2003–04, p. 254 **(outstanding 3 or more years)**
- * Planning for research capacity—2003–04, #26, p. 255 **(outstanding 3 or more years)**
- * Research roles and responsibilities—2004–05, #18, p. 90 **(outstanding 3 or more years)**
- * Research policies—2004–05, p. 91 **(outstanding 3 or more years)**
- * Research project proposals—2004–05, p. 92 **(outstanding 3 or more years)**
- * Research project management—2004–05, p. 93 **(outstanding 3 or more years)**
- * Research revenues and expenditures—2004–05, p. 94 **(outstanding 3 or more years)**
- General computer controls—2005–06, vol. 2, p. 20 **(outstanding 3 or more years)**
- IT governance and control framework—2006–07, #18, vol. 2, p. 10
- * Controls—research and trust accounts—2006–07, vol. 2, p. 15 **(repeated once since 2003–04) (outstanding 3 or more years)**
- Improving the control environment—October 2008, #21, p. 213
- * Improving executive compensation processes—October 2009, #18, p. 146
- Controls over payroll—October 2009, p. 153 **(repeated twice since 2006–07)**
- PeopleSoft security—October 2009, #19, p. 155 **(repeated three times since 2005–06) (outstanding 3 or more years)**
- * Improving controls over journal entries—October 2009, p. 157 **(repeated once since October 2008)**

University of Lethbridge
- IT internal control framework—2006–07, #21, vol. 2, p. 23
- * Financial research roles and responsibilities—October 2008, p. 225
- * Clear and complete research policies—October 2008, p. 227
- * Processes for investing in research projects—April 2009, #1, p. 26

[2] By Order in Council (O.C. 435/2009 dated September 2, 2009) Mount Royal College's name was changed to Mount Royal University.

Agriculture and Rural Development

Department

- * Performance measurement—2002-03, #3, p. 49
  (outstanding 3 or more years)
- Evaluating program success: grant management—2004-05, #20, p. 113
  (repeated once since 2000–01) (outstanding 3 or more years)
- Food Safety: Alberta Agriculture's surveillance program—2005–06, #9, vol. 1, p. 88
  (outstanding 3 or more years)
- Food Safety: Alberta Agriculture's food safety information systems—2005–06, vol. 1, p. 94
  (outstanding 3 or more years)
- * Verifying eligibility for Farm Fuel Benefit program—2005–06, #24, vol. 2, p. 37
  (outstanding 3 or more years)
- Monitoring IT security policy—2005–06, vol. 2, p. 4
  (outstanding 3 or more years)
- Reporting and dealing with allegations of employee misconduct—November 2006, #12, p. 46
  (outstanding 3 or more years)

Department and Health and Wellness

- Food Safety: Integrated food safety planning and activities—October 2009, #11 , p. 107
  (repeated once since 2005–06) (outstanding 3 or more years)
- Food Safety: Eliminating gaps in food safety inspection coverage—October 2009, #12, p. 110
  (repeated once since 2005–06) (outstanding 3 or more years)
- Food Safety: Accountability—October 2009, #13, p. 113
  (repeated once since 2005–06) (outstanding 3 or more years)

Agriculture Financial Services Corporation

- Loan loss processes—2006–07, vol. 2, p. 32
- IT risk assessment and control framework—October 2009, p. 168
- * Note payable repurchase—October 2009, p. 170
- * Investment portfolio analysis—October 2009, p. 170

Children and Youth Services

Department

- * Risk assessment and internal audit services—2001–02, #9, p. 54
  (outstanding 3 or more years)
- Accreditation systems for service providers—2006–07, #7, vol. 1, p. 82
- Department compliance monitoring—2006–07, #8, vol. 1, p. 83

Child and Family Services Authorities

- Authorities compliance monitoring processes—2006–07, vol. 1, p. 86
- Authorities monitoring of service providers—2006–07, vol. , p. 88

Culture and Community Spirit and Tourism, Parks and Recreation

- Computer control environment—2006–07, vol. 2, p. 172

Education

- School board budget process—2005–06, #25, vol. 2, p. 65
  (outstanding 3 or more years)
- School board interim reporting—2005–06, #26, vol. 2, p. 68
  (outstanding 3 or more years)
- Business cases—2006–07, vol. 2, p. 45

Employment and Immigration

Department

- * Income support program—exception reports—2006–07, vol. 2, p. 55
- * Compliance function—Income support program—2006–07, vol. 2, p. 56

- IT control environment—2006–07, #23, vol. 2, p. 60
- Monitoring and enforcement of training providers—October 2008, #24, p. 245
- Approving and renewing training programs—October 2008, p. 249
- Improving the use of information systems—October 2008, p. 251
- Fraud investigation processes—October 2009, p. 186
- * Internal audits and home visits—October 2009, p. 189

Worker's Compensation Board

- * Claims audit—October 2009, p. 191
- * Access and security monitoring—October 2009, p. 192

Energy

Department

- * Assurance on well and production data—2005–06, #27, vol. 2, p. 76
  (repeated once since 2004–05) (outstanding 3 or more years)
- * Royalty regime objectives and targets—2006–07, #9, vol. 1, p. 115
- * Royalty planning, coverage and internal reporting—2006–07, #10, vol. 1, p. 119
- * Royalty—improving annual performance measures—2006–07, #11, vol. 1, p. 124
- * Royalty—periodic public information—2006–07, #12, vol. 1, p. 126
- * Royalty—enhancing controls—2006–07, #13, vol. 1, p. 129
- * Documenting potential conflicts of interest—April 2008, p. 57
- * Alberta's Bioenergy Programs—October 2008, #25, p. 255
- * Reporting royalty-liable fuel-gas volumes—October 2008, #26, p. 257
- * Bitumen valuation methodology implementation—October 2009, #20, p. 195
- * Improving processes to prepare financial information—October 2009, p. 197
- * Sustaining the continued accuracy of the revenue forecast system—October 2009, # 21, p. 199
- * Corporate effective royalty rate—October 2009, #22, p. 200

Department, Environment and Sustainable Resource Development

- * Sustainable Resource and Environmental Management (SREM) Implementation Plan—2004–05, #14, p. 72
  (outstanding 3 or more years)

Energy Resources Conservation Board

- Assurance systems for volumetric accuracy—2004–05, #29, p. 169
  (outstanding 3 or more years)
- Liability management for suspension, abandonment and reclamation activities—2004–05, #30, p. 173
  (outstanding 3 or more years)
- IT control framework—2006–07, #24, vol. 2, p. 71
- * Assessing and improving SAP security controls—October 2009, p. 202

Environment

Department

- Drinking Water: Approvals and registrations—2005–06, #1, vol. 1, p. 37
  (outstanding 3 or more years)
- Drinking Water: Inspection system—2005–06, #2, vol. 1, p. 43
  (outstanding 3 or more years)
- Drinking Water: Communicating with partners—2005–06, vol. 1, p. 48
  (outstanding 3 or more years)
- Drinking Water: Information systems—2005–06, #4, vol. 1, p. 52
  (outstanding 3 or more years)
- Drinking Water: Supporting drinking water goals—2005–06, #5, vol. 1, p. 53
  (outstanding 3 or more years)
- Water Well Drilling—2005–06, #28, vol. 2, p. 84
  (outstanding 3 or more years)
- Climate change: Planning—October 2008, #9, p. 97
- Climate change: Monitoring processes—October 2008, #10, p. 100

• Climate change: Public reporting—October 2008, #31, p. 300
• EcoTrust governance—October 2008, p. 262
• Climate change: Data quality—October 2009, p. 40
• Climate change: Guidance to verifiers of facility baseline and compliance reports—October 2009, #3, p. 42
• Climate change: Technical review—October 2009, p. 45
• Climate change: Use of offsets to meet compliance obligations—October 2009, #4, p. 46
• Climate change: Outsourced service providers—October 2009, p. 49
• Climate change: Error correction threshold—October 2009, p. 50
• Climate change: Cost-effectiveness of regulatory processes—October 2009, #5, p. 51
• Financial security for land disturbances—October 2009, #23, p. 207
(repeated three times since 1998–99) (outstanding 3 or more years)

Department, Energy and Sustainable Resource Development

* • Sustainable Resource and Environmental Management (SREM) Implementation Plan—2004–05, #14, p. 72
(outstanding 3 or more years)

Executive Council

• CEO: Guidance—October 2008, #1, p. 27
• Agency Governance Secretariat: CEO Accountability—October 2008, #2, p. 29
• Public agencies: Executive Compensation Practices—October 2009, #1, p. 23
• Public Affairs Bureau's Agency of Record risk assessment—October 2009, p. 56

Finance and Enterprise

Department

* • Rates of return used to forecast investment income—2006–07, vol. 1, p. 142
* • Personal income tax forecast—2006–07, vol. 1, p. 143
• Corporate income tax forecast—2006–07, #14, vol. 1, p. 145
• Public reporting of revenue forecasts—2006–07, #16, vol. 1, p. 149
* • Alberta Indian Tax Exemption program limits—2006–07, vol. 2, p. 85
• Obtaining assurance on third party service providers—2006–07, vol. 2, p. 87
* • User access—October 2008, p. 272
* • Use of spreadsheets in processing taxes—October 2008, p. 273
* • Investment Accounting and Reporting Group—October 2008, #28, p. 268
* • Quality control process over review of information in the annual report—October 2009, p .214
* • Contract agreements—October 2009, p. 216

Alberta Capital Finance Authority

• Additional skilled resources required—April 2009, p. 103

Alberta Investment Management Corporation (AIMCo)

* • Access and change management controls—2006–07, vol. 2, p. 93
* • Internal control certification—October 2008, #32, p. 279
* • Procedures for valuing real estate investments—October 2008, p. 285
* • Accuracy of private equity partnership investments—October 2008, #33, p. 287
(repeated once since 2006–07)
* • International Swaps and Derivatives Association Agreements—October 2008, #34, p. 288
* • Controls over records management—October 2008, p. 291
* • Internal audit—October 2009, p. 232
* • Valuation of private equity and hedge fund investments—October 2009, #26, p. 233
• Coordination with the Department of Finance and Enterprise—October 2009, p. 235
* • AIMCo financial statements—October 2009, p. 236

Alberta Treasury Branch (ATB)

- Risk management—2002–03, #16, p. 121
  (repeated once since 2001–02) (outstanding 3 or more years)
- * Treasury management: Business rules and operating procedures—October 2008, #12, p. 118
- Treasury management: Performance targets—October 2008, p. 123
- Treasury management: Variable pay program—October 2008, p. 125
- * Treasury management: Liquidity reporting—October 2008, p. 127
- Treasury management: Liquidity simulations—October 2008, p. 128
- Treasury management: Liquidity contingency plan—October 2008, #13, p. 129
- * Treasury management: Interest rate risk reporting—October 2008, #14, p. 131
- Treasury management: Interest rate risk model assumptions—October 2008, p. 132
- * Treasury management: Interest rate risk modeling and stress testing—October 2008, p. 134
- Treasury management: Interest rate risk controls—October 2008, p. 136
- * Treasury management: Role and use of middle office—October 2008, p. 137
- Treasury management: Treasury information systems—October 2008, p. 138
- * Treasury management: Treasury policies—October 2008, p. 139
- * Treasury management: Role of ALCO—October 2008, #15, p. 142
- Treasury management: Internal audit program—October 2008, p. 143
- * Fair-value calculations of investments—October 2008, p. 274
- * Derivative credit limits in report—October 2008, p. 276
- Internal control weaknesses—October 2008, #29, p. 278
- * Criminal-record checks—October 2008, #30, p. 279
- Securitization policy and business rules—October 2008, #31, p. 280
- Internal controls—October 2009, p. 221
- Organization-wide information technology oversight—October 2009, #24, p. 222
- * Compliance with Alberta Finance and Enterprise Guidelines—October 2009, #25, p. 226
  (repeated once since 2006–07)
- Service auditor reports—user control considerations—October 2009, p. 227

Health and Wellness

Department

- Accountability of the health regions to the Minister of Health and Wellness—2003–2004, #23, p. 197
- Accountability for health care costs—annual report results analysis—2005–06, #31, vol. 2, p. 116
  (outstanding 3 or more years)
- Accountability for health care costs—performance measures—2005–06, #32, vol. 2, p. 118
  (outstanding 3 or more years)
- Analysis of physician billing information—2005–06, #33, vol. 2, p. 120
  (repeated once since 2000–01) (outstanding 3 or more years)
- Information technology control environment—2005–06, #34, vol. 2, p. 123
  (repeated twice since 2001–02) (outstanding 3 or more years)
- Unauthorized network connections—2006–07, vol. 2, p. 105
- * Claims assessment system—2006–07, vol. 2, p. 107
- Provincial Mental Health Plan—The accountability framework—April 2008, #4, p. 77
- Compliance monitoring activities—October 2008, #35, p. 300
- Infrastructure funding for health facilities—October 2008, p. 301
- Electronic Health Records: Oversight and accountability for electronic health records—October 2009, #6, p. 73
- Electronic Health Records: Project management—October 2009, #7, p. 75
- Electronic Health Records: Monitoring the EHR—October 2009, #8, p. 78
- Electronic Health Records: User access management—October 2009, p. 80
- Monitoring infection prevention and control processes (Compliance monitoring activities)—October 2009, p. 248

- Accountability for conditional grants—October 2009, p. 252
  (repeated twice since 2001–02)

Department and Agriculture and Rural Development

- Food Safety: Integrated food safety planning and activities—October 2009, #11, p. 107
  (repeated once since 2005–06) (outstanding 3 or more years)
- Food Safety: Eliminating gaps in food safety inspection coverage—October 2009, #12, p. 110
  (repeated once since 2005–06) (outstanding 3 or more years)
- Food Safety: Accountability—October 2009, #13, p. 113
  (repeated once since 2005–06) (outstanding 3 or more years)

Department and Alberta Health Services

- Seniors Care: Compliance with Basic Service Standards—2004–05, #6, p. 58
  (outstanding 3 or more years)
- Seniors Care: Effectiveness of services in long-term care facilities—2004–05, #7, p. 59
  (outstanding 3 or more years)
- Seniors Care: Long-term care accommodation rates and funding—2004–05, #8, p. 59
  (outstanding 3 or more years)
- Seniors Care: Information to monitor compliance with legislation—2004–05, p. 61
  (outstanding 3 or more years)
- Seniors Care: Future needs for services in long-term care facilities—2004–05, #9, p. 62
  (outstanding 3 or more years)
- Seniors Care: Continuing care strategic services plans—2004–05, p. 62
  (outstanding 3 or more years)
- Food Safety: Tools to promote and enforce food safety—2005–06, vol. 1, p. 83
  (outstanding 3 or more years)
- Mental Health: Provincial Mental Health Plan: Implementation systems—April 2008, #3, p. 72
- Mental Health: Standards—October 2008, #16, p. 162
- Mental Health: Funding, planning, and reporting—October 2008, p. 186
- Mental Health: Aboriginal and suicide priorities—October 2008, p. 190
- Oversight and accountability for electronic health records (EHR)—October 2009, #6, p. 73
- Executive termination payments—October 2009, #27, p. 256
- Supplementary retirement plans—October 2009, #28, p. 260
- Information technology control policies and processes—October 2009, #29, p. 262
- Budget approval—October 2009, #30, p. 267
- Capital project funding and approval—October 2009, #31, p. 269
- Capital project monitoring systems—October 2009, #32, p. 271
- Year-end financial reporting processes—October 2009, p. 274
- Expenditure policies and approvals—October 2009, p. 277
- Approval of drug purchases—October 2009, p. 278
- Physician recruitment incentives—October 2009, p. 279
- Compliance with investment policy—October 2009, p. 280

Alberta Health Services

- Calgary and Capital: Performance measures for surgical services—2000–01, p. 135
  (outstanding 3 or more years)
- Calgary: Monitoring service provider compliance and performance—2005–06, #36, vol. 2, p. 128
  (outstanding 3 or more years)
- Calgary: Change-management process—2006–07, #28, vol. 2, p. 112
- Calgary: Inappropriate user access—2006–07, #29, vol. 2, p. 113
- Cancer Board: Controls over access to computer applications—2006–07, vol. 2, p. 115
- AADAC General computer controls—2006–07, vol. 2, p. 116
- AADAC Contracting Practices: Internal controls—November 2006, #1, p. 14
  (outstanding 3 or more years)
- AADAC Contracting Practices: Board governance—November 2006, #3, p. 17
  (outstanding 3 or more years)
- Mental Health: Housing and supportive living—October 2008, #17, p. 164

- Mental Health: Concurrent disorders—October 2008, #18, p. 168
- Mental Health: Not-for-profit organizations—October 2008, p. 169
- Mental Health: Gaps in service—October 2008, #19, p. 171
- Mental Health: Provincial coordination—October 2008, p. 176
- Mental Health: Community-based service delivery—October 2008, p. 181
- Calgary: IT change management controls—October 2008, p. 306
- Calgary: IT user access management controls—October 2008, p. 307
- Capital: IT security controls—October 2008, p. 308
- Capital: IT change management controls—October 2008, p. 309
- Peace Country: Expense claims and corporate credit cards controls—October 2008, p. 311
- Peace Country: Contract documentation—October 2008, p. 312
- Peace Country: IT user access—October 2008, p. 313
- Food Safety: Inspection programs—October 2009, #9, p. 93
  (repeated once since 2005–06) (outstanding 3 or more years)
- Food Safety: Information systems—October 2009, #10, p. 99
  (repeated once since 2005–06) (outstanding 3 or more years)

Health Quality Council of Alberta (HQCA)

- * Investigative Role Policy—October 2008, p. 317
- * Guidance on using legal assistance—October 2008, p. 319

Housing and Urban Affairs

- Direct rent supplement program payments—October 2009, p. 283

International and Intergovernmental Relations

- Evaluating international offices' performance—October 2008, p. 324
- * Ensuring effective information-system controls—October 2008, p. 326

Infrastructure

- IT risk—October 2009, p. 287
- * Password controls—October 2009, p. 288

Justice and Attorney General

- * Judicial IT Security—2006–07, vol. 2, p. 131
- Motor vehicle accident program—Clarifying collection steps—October 2009, #33, p. 293
- Access controls—October 2009, p. 295

Municipal Affairs

- * Information Technology management controls—2006–07, vol. 2, p. 138
  (repeated once since 2003–04) (outstanding 3 or more years)
- ME first! Program—October 2008, #37, p. 335
- Disaster Recovery Program—October 2009, #34, p. 301

Seniors and Community Supports

Department

- Effectiveness of Seniors Lodge Program—2004–05, #12, p. 66
  (outstanding 3 or more years)
- Determining future needs for Alberta Seniors Lodge Program—2004–05, p. 67
  (outstanding 3 or more years)
- * Effectiveness of the Alberta Seniors Benefit Program—2004–05, p. 68
  (outstanding 3 or more years)
- * Information to determine benefits for the Alberta Seniors Benefit Program—2004–05, #13, p. 69
  (outstanding 3 or more years)
- General computer controls—2006–07, vol. 2, p. 143

Persons with Developmental Disabilities Boards
- Contract monitoring and evaluation—2003–04, #9, p. 111
  (outstanding 3 or more years)

Service Alberta

Department
- Contracting policies and procedures—2003–04, #20, p. 177
  (outstanding 3 or more years)
- IT project management of registry renewal initiative—2004–05, #34, p. 212
  (outstanding 3 or more years)
- IT project management—2005–06, #22, vol. 1, p. 174
  (outstanding 3 or more years)
- Physical security—2005–06, #37, vol. 2, p. 168
  (outstanding 3 or more years)
- * IT Service level agreements between Service Alberta and its client ministries—2006–07, #32, vol. 2, p. 146
- * Security administration for shared services—2006–07, vol. 2, p. 148
  (repeated once since 2005–06) (outstanding 3 or more years)
- Guidance to implement IT control frameworks—April 2008, #7, p. 170
- Increasing collaboration by ministries—October 2008, p. 84
- Central Security Office—October 2008, #4, p. 53[3]
- Physical security—October 2008, #8, p. 87
- Service Alberta's as a central processor of transactions—October 2008, #38, p. 345
- Access- and security-monitoring of application systems—October 2008, p. 346
- System-conversion process—October 2008, p. 349

Ministry
- Information technology resumption plan—October 2009, #35, p. 311
- Payroll review processes—October 2009, p. 312

Department with all ministries
- Develop and maintain detailed standards and policies to build and operate secure web applications—October 2008, p. 64
- Develop standards and policies to ensure web applications are built to required standards—October 2008, #5, p. 66
- Review and improve the GoA's shared computing infrastructure policies, procedures, and standards—October 2008, #6, p. 68
- Wireless policies and standards—October 2008, p. 75
- Device configurations—October 2008, p. 76
- Ongoing monitoring and surveillance—October 2008, #7, p. 77
- Backup power supplies—October 2008, p. 85
- Environmental security—October 2008, p. 89

Sustainable Resource Development

Department
- * Contracting—2002–03, p. 277
  (outstanding 3 or more years)
- * Reforestation: Monitoring and enforcement—2005–06, #15, vol. 1, p. 122
  (outstanding 3 or more years)
- * Reforestation: Seed inventory—2005–06, vol. 1, p. 129
  (outstanding 3 or more years)
- Reforestation: Performance information—April 2009, #2, p. 52
  (repeated once since 2005–06) (outstanding 3 or more years)

[3] Recommendation originally made to Executive Council. Both entities agreed that Service Alberta would assume responsibility for implementation.

* • Leases and sales—2006–07, vol. 2, p. 161
* • Land sale agreements—2006–07, vol. 2, p. 162
* • Requests for proposals—2006–07, #33, vol. 2, p. 163
* • Project management—2006–07, vol. 2, p. 165
* • Controls over revenue—October 2008, #39, p. 355
- Sand and Gravel: Enforcement of reclamation obligations—October 2008, #40, p. 360
- Sand and Gravel: Flat fee security deposit—October 2008, #41, p. 362
- Sand and Gravel: Quantity of aggregate removed—October 2008, p. 364
- Sand and Gravel: Information management—October 2008, p. 366

* • IT control framework—October 2009, p. 323

Department, Energy and Environment

* • Sustainable Resource and Environmental Management (SREM) Implementation Plan—2004–05, #14, p. 72 **(outstanding 3 or more years)**

Natural Resources Conservation Board

* • Compliance and enforcement (Confined feeding operations)—2006–07, #34, vol. 2, p. 167 **(repeated once since 2003–04) (outstanding 3 or more years)**

Tourism, Parks and Recreation and Culture and Community Spirit

- Computer control environment—2006–07, vol. 2, p. 172

Transportation

* • Commercial and motor vehicle inspection programs—2003–04, #29, p. 301 **(outstanding 3 or more years)**
* • Licensing inspection facilities and technicians—2003–04, #30, p. 303 **(outstanding 3 or more years)**
* • Capital grants to Métis Settlements—November 2006, #5, p. 24 **(outstanding 3 or more years)**
- Commercial vehicle safety: Inspection tools and vehicle selection—October 2009, p. 124
- Commercial vehicle safety: Progressive sanctions—October 2009, #14, p. 127
- Commercial vehicle safety: Analysis and measurement—October 2009, #15, p. 129
- IT risk assessment—October 2009, p. 329

Treasury Board

- Corporate government accounting policies—2002–03, #2, p. 40 **(repeated 6 times since 1996–97) (outstanding 3 or more years)**

* • Infrastructure needs: Roles and responsibilities—2006–07, #1, vol. 1, p. 39
- Infrastructure needs: Maintenance and life-cycle costs—2006–07, #2, vol. 1, p. 49
- Infrastructure needs: Deferred maintenance and life-cycle costs—2006–07, #3, vol. 1, p. 54

* • Infrastructure needs: Process to prioritize projects—2006–07, #4, vol. 1, p. 57
* • Infrastructure needs: Improving current information—2006–07, #5, vol. 1, p. 59
- Government credit cards—2006–07, #17, vol. 1, p. 174
- Inconsistent budgeting and accounting for grants—2006–07, vol. 2, p. 178
- CEO compensation disclosure—October 2008, #3, p. 32
- Salary and benefits disclosure—October 2008, p. 371
- Report on selected payments to MLAs—Content—October 2008, p. 375

* • Report on selected payments to MLAs—Efficiency—October 2008, p. 376
* • Report on selected payments to MLAs—Timely—October 2008, p. 377
- Public agencies: Disclosure of termination benefits paid—October 2009, #2, p. 29
- Government of Alberta and Ministry Annual Reports: Analysis and review of performance measures—October 2009, #16, p. 136

AUDITOR
GENERAL
Alberta

Reference

Report of the Auditor General of Alberta—[illegible]

Glossary

This glossary explains key accounting terms and concepts in this report.

Accountability — Responsibility for the consequences of actions. In this report, *accountability* requires ministries, departments and other entities to:
- report their results (what they spent and what they achieved) and compare them to their goals
- explain any differences between their goals and results

Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals), and what it actually does (results).

Accrual basis of accounting — A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion — An auditor's opinion that financial statements are not presented fairly and are not reliable

Assurance — An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit — Work an auditor does to express an opinion on the reliability of financial statements.

Audit — An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices.

Auditor — A person who examines systems and financial information.

Auditor's opinion — An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report — An auditor's written communication on the results of an audit.

Business cases — An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyses the costs, benefits and risks associated with the proposed investment, including reasonable alternatives. The province has issued business case usage guidelines and a business case template that the Department can refer to in establishing its business case policy.

Capital asset — A long-term asset.

COBIT — Abbreviation for "Control Objectives for Information and Related Technology." COBIT was developed by the Information Systems Audit and Control Foundation and the IT Governance Institute. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs, and performance measurement requirements.

Criteria — Reasonable and attainable standards of performance that auditors use to assess systems.

Cross-ministry — The section of this report covering systems and problems that affect several ministries or the whole government.

Crown — The Government of Alberta.

Deferred maintenance — Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

ERP — Abbreviation for Enterprise Resource Planning. ERPs integrate and automate all data and processes of an organization into one comprehensive system. A typical ERP has multiple modules within a computer software application, standardized hardware, and a centralized database used by all modules to achieve this integration. Although an ERP can be as small as an accounting and payroll application, the term ERP is usually associated with larger systems that perform many functions within an organization. Examples of modules in an ERP, which formerly would have been stand-alone applications, include: Financials (General Ledger, Accounts Payable, and Accounts Receivable), Payroll, Human Resources, Purchasing and Supply Chain, Project Management, Asset Management, Student Administration Systems and Decision Support Systems. Some of the more common ERPs are PeopleSoft, SAP, Great Plains, and Oracle Applications.

Exception — Something that does not meet the criteria it should meet—see "Auditor's opinion."

Expense — The cost of a thing over a specific time.

GAAP — Abbreviation for "generally accepted accounting principles," which are established by the Canadian Institute of Chartered Accountants.

Governance — A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures the effective use of public resources.

Internal audit — A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group reports its findings directly to the deputy minister. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.

Internal control — A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations, and internal policies

Management letter — Our letter to the management of an entity that we have audited. In the letter, we explain:

1. our work
2. our findings
3. our recommendation of what the entity should improve and how it should do so
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality — Something important to decision-makers.

Misstatement — A misrepresentation of financial information due to mistake, fraud, or other irregularities.

Outcomes — The results an organization tries to achieve based on its goals.

Outputs — The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many."

Performance measure	Indicator of progress in achieving a goal.
Performance reporting	Reporting on financial and non-financial performance compared to plans.
Performance target	The expected result for a performance measure.
Qualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.
Recommendation	A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.
Review	Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of enquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.
Risk	Anything that impairs an organization's ability to achieve its goals.
Risk management	Identifying and then minimizing or eliminating risk and its effects.
Systems (management)	A set of interrelated management control processes designed to achieve goals economically and efficiently.
Systems (accounting)	A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities.
Systems audit	To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money. Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that: • an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or • appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with. To meet this requirement, we do *systems audits*. Systems audits are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation. A *systems audit* should not be confused with assessing systems with a view to relying on them in an audit of financial statements.
Unqualified auditor's opinion	An auditor's opinion that information audited meet the criteria that apply to them.

Unqualified review engagement report — Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

Value for money — The concept underlying a systems audit is *value for money*. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources that are used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

Index

AUDITOR GENERAL
Alberta

Office of the Auditor General of Alberta
8th Floor, 9925 – 109 Street NW
Edmonton, Alberta, Canada T5K 2J8
Phone: 780.427.4222
Fax: 780.422.9555
Email: info@oag.ab.ca

This report is available online at www.oag.ab.ca.